

IDAHO TAX REIMBURSEMENT INCENTIVE FY2016 ANNUAL REPORT





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

Two years ago, 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 opportunities, 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.

In its first two years, TRI has been extremely successful in encouraging 14 existing Idaho companies to grow and expand their business in our state.

During Fiscal Year 2016 (FY2016), the Idaho Economic Advisory Council approved 13 projects, bringing the total approved projects to 29. While TRI has been extremely successful in leveraging a total of 15 new companies to invest in Idaho, it also had a tremendous impact in encouraging 14 existing Idaho companies to grow and expand in our state.

TRI has also been equally beneficial to both urban and rural communities in Idaho. Of the 29 total approved projects, 14 have been located in urban centers with the remaining 15 creating high-wage jobs in Idaho’s smaller communities.

To date, TRI investments have created a projected 4,700 jobs and over \$2 billion in new payroll. With an average project wage of \$46,986, these new jobs are well above the statewide average of \$36,152. TRI is also expected to generate over \$221 million in new state revenues, resulting in 400% return on investment.

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 Idaho Economic Advisory Council.

After reviewing this report and independent audit, you will see why we view the TRI as an ongoing success. We are confident this incentive will continue to enhance our ability to “move at the speed of business” and 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.

Enthusiastically Yours,

A handwritten signature in black ink that reads "Megan Ronk".

**Megan Ronk
Director**

WHAT IS THE TAX REIMBURSEMENT INCENTIVE?

The Idaho Tax Reimbursement Incentive (TRI), which went into effect on July 1, 2014, is a post-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.

FY2016 SUMMARY



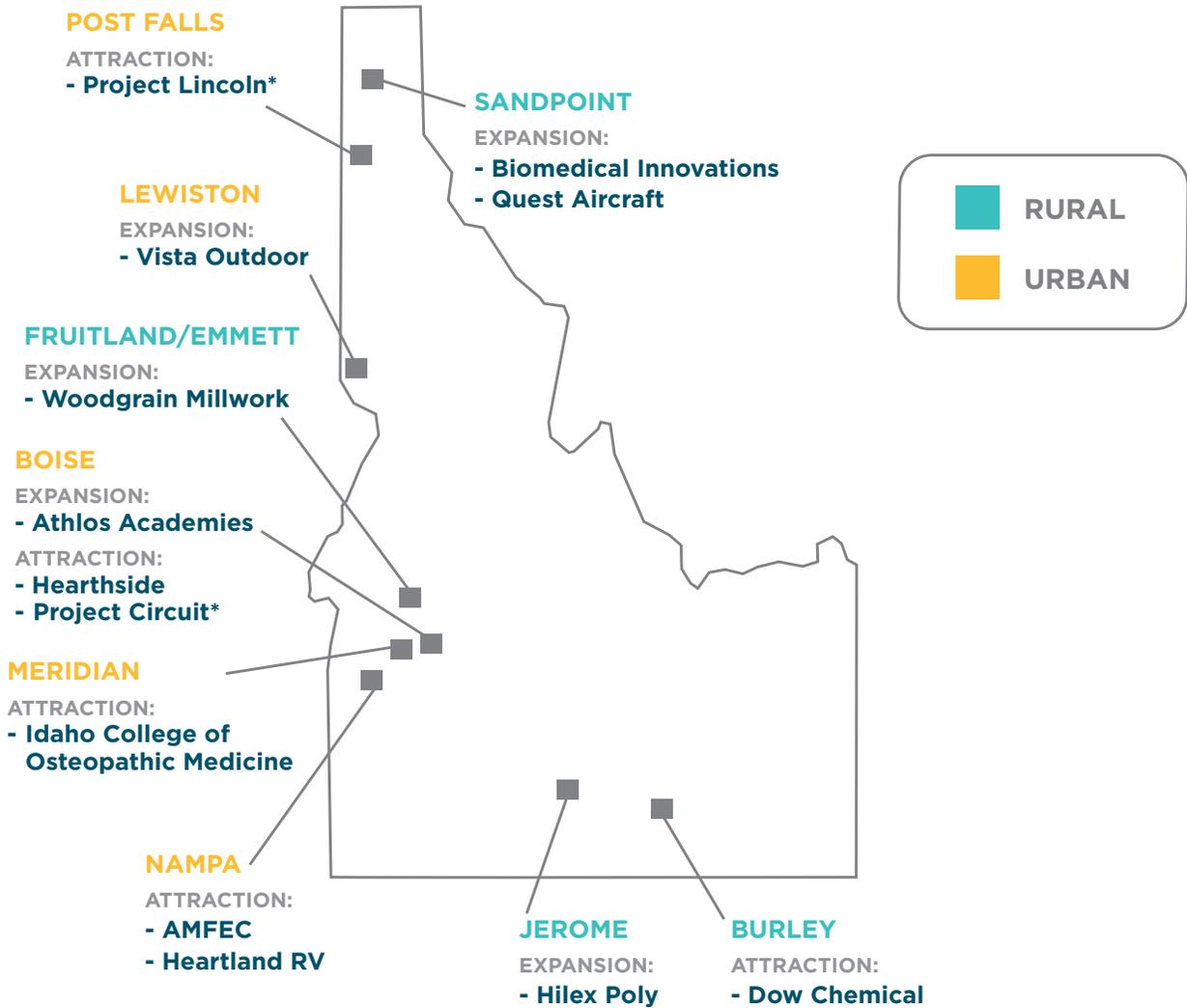


Heartland RV, Nampa

FY2016 ANNOUNCED TRI PROJECTS



FY2016 TOTAL TRI PROJECTS



*PROJECT NOT ANNOUNCED

LOCATION		TYPE		INDUSTRY		
8	5	6	7	8	2	
Urban	Rural	Existing	New	Advanced Manufacturing	Corporate Office & Shared Services	
				1	1	1
				Aerospace	Food Production	Education Services

FY2016 SUCCESS STORIES

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 2016 (FY2016), 13 new or expanding Idaho businesses were approved for a TRI award. At full term, these 13 projects are estimated to result in over 1,500 new jobs and are estimated to generate \$78.5 million in new tax revenue to the state, generating an estimated 4:1 return on investment to the General Fund.

RETURN ON INVESTMENT = 400%



Athlos Academies, Boise



Athlos Academies, an Idaho-based charter school service provider, announced that it will be opening their new national training facility and corporate headquarters office in Idaho. The facility will be housed in the former Macy's building in downtown Boise which will add new energy to a previously vacant building in the city center. The company will be creating 50 new jobs in the Treasure Valley. Currently, Athlos has charter schools in Arizona, Texas, Minnesota, and Utah, and is working to expand its presence in other states around the country. Athlos Academies was approved for a TRI award of 17% for 8 years.

“This tax incentive will allow us to accommodate our rapidly growing workforce... and [build] a community that is focused on doing what is best for students.”

- Ryan Van Alfen, Athlos Co-Founder Solutions



Sandpoint based Quest Aircraft started in 1998 with a desire to create a more modern backcountry airplane suited to the demands of mission and humanitarian aviation. Under this vision came the KODIAK® 100, a plane designed for short takeoff and landing and float capabilities. Because of its versatility and capability, the market demand for the KODIAK expanded beyond its rugged backcountry roots to serve in many roles including executive shuttle service, parachute operations, police and government services, commercial charter service, and private ownership, along with fulfilling the original vision of humanitarian aviation. The KODIAK is certified in 32 countries, and is in operation around the globe. Quest's expansion in Sandpoint illustrates the growing strength of North Idaho's aerospace cluster which has also seen expansions from AGC AeroComposites, ATC, and North Idaho College's Aerospace Center of Excellence designation. The new expansion will create 187 new jobs in Sandpoint at an average wage of \$39,500 as well as double the size of their existing production facility. Quest was approved for a TRI award of 25% for 12 years.



Hilex Poly, Jerome



Hilex Poly, a brand in the Novolex family, announced an expansion of their existing Jerome manufacturing facility that produces plastic carry out bags. Their current Magic Valley site, one of 43 locations across the United States, Canada, and Mexico, was built in 2004 and has 125 employees. This expansion created 45 new jobs with a projected total payroll of \$27.1 million. The Novolex brands are unified by four common values: Manufacturing Innovation and Quality; Service; Packaging Choice; and Sustainability. Novolex was approved for a TRI award of 21% for 15 years.



Dow Chemical, the largest chemical company in the United States, plans to construct a new 60,000 square foot manufacturing facility in Burley. Groundbreaking on the project is expected to begin in 2016 and be completed in 2017. The facility will be producing STYROFOAM™ Brand Extruded Polystyrene (XPS) Insulation – a leading thermal insulation solution facilitating sustainability, innovation, and community success in the building and construction industry since its discovery in 1941. The Burley project will create 21 jobs and will be Dow’s first Idaho location. Dow was approved for a TRI award of 24% for 9 years.



With approval from the State Board of Education, Governor C.L. “Butch” Otter announced a new public-private partnership to create Idaho’s first four-year medical school at Idaho State University’s Meridian Health Science Center. The new Idaho College of Osteopathic Medicine (ICOM) will be a freestanding, privately funded, separately licensed and independently operated entity and will undergo an accreditation process through the Commission on Osteopathic College Accreditation. Construction of a roughly 80,000-square-foot, \$32 million building to house the medical school will begin by April 2017 and classes are expected to begin in Fall 2018. ICOM was approved for a TRI of 21% for 10 years.

FY2016 ECONOMIC IMPACT TO THE STATE

When fully implemented, the 13 TRI projects approved in FY2016 will create an estimated 1,509 jobs in the state. These projects will generate approximately \$228.3 million in new capital investment, \$85.6 million in new tax revenue to the state General Fund, and more importantly, will bring over \$755 million in new payroll to the state.

Company/Project Name	Estimated Jobs	Estimated Avg Wage	Total Project Payroll	Estimated State Tax Revenue[1]	Estimated Capital Investment[2]
AMFEC	89	\$44,800	\$25,300,000	\$3,200,000	\$5,500,000
Athlos Academies	50	\$50,000	\$15,000,000	\$1,500,000	\$6,000,000
Biomedical Innovations	33	\$39,600	\$10,700,000	\$1,000,000	\$1,500,000
Dow Chemical	21	\$65,300	\$12,400,000	\$2,600,000	\$20,000,000
Hearthside Food Solutions	80	\$44,100	\$38,900,000	\$3,000,000	\$15,000,000
Heartland RV	275	\$37,900	\$122,500,000	\$19,300,000	\$15,000,000
Hilex Poly	45	\$40,200	\$27,100,000	\$2,800,000	\$6,500,000
Idaho College of Osteopathic Medicine	90	\$88,300	\$79,500,000	\$18,400,000	\$32,600,000
Project Circuit*	351	\$70,100	\$199,300,000	\$14,100,000	\$1,000,000
Project Lincoln*	60	\$51,200	\$17,500,000	\$2,300,000	\$12,500,000
Quest Aircraft	187	\$39,500	\$75,800,000	\$4,500,000	\$5,400,000
Vista Outdoor	137	\$47,400	\$101,800,000	\$10,300,000	\$99,300,000
Woodgrain Millwork	91	\$32,200	\$29,300,000	\$2,600,000	\$8,000,000
TOTAL	1,509	\$51,300	\$755,100,000	\$85,600,000	\$228,300,000

[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

FY2016 ESTIMATED TAX CREDIT COMMITMENTS

The average FY2016 TRI award was 22% over a term of 11 years, significantly less than the maximum available award of 30% for 15 years.

When fully implemented, the aggregate value of tax reimbursements awarded in FY2016 would be just over \$1.6 million annually, or a total of \$20.1 million across all project terms.

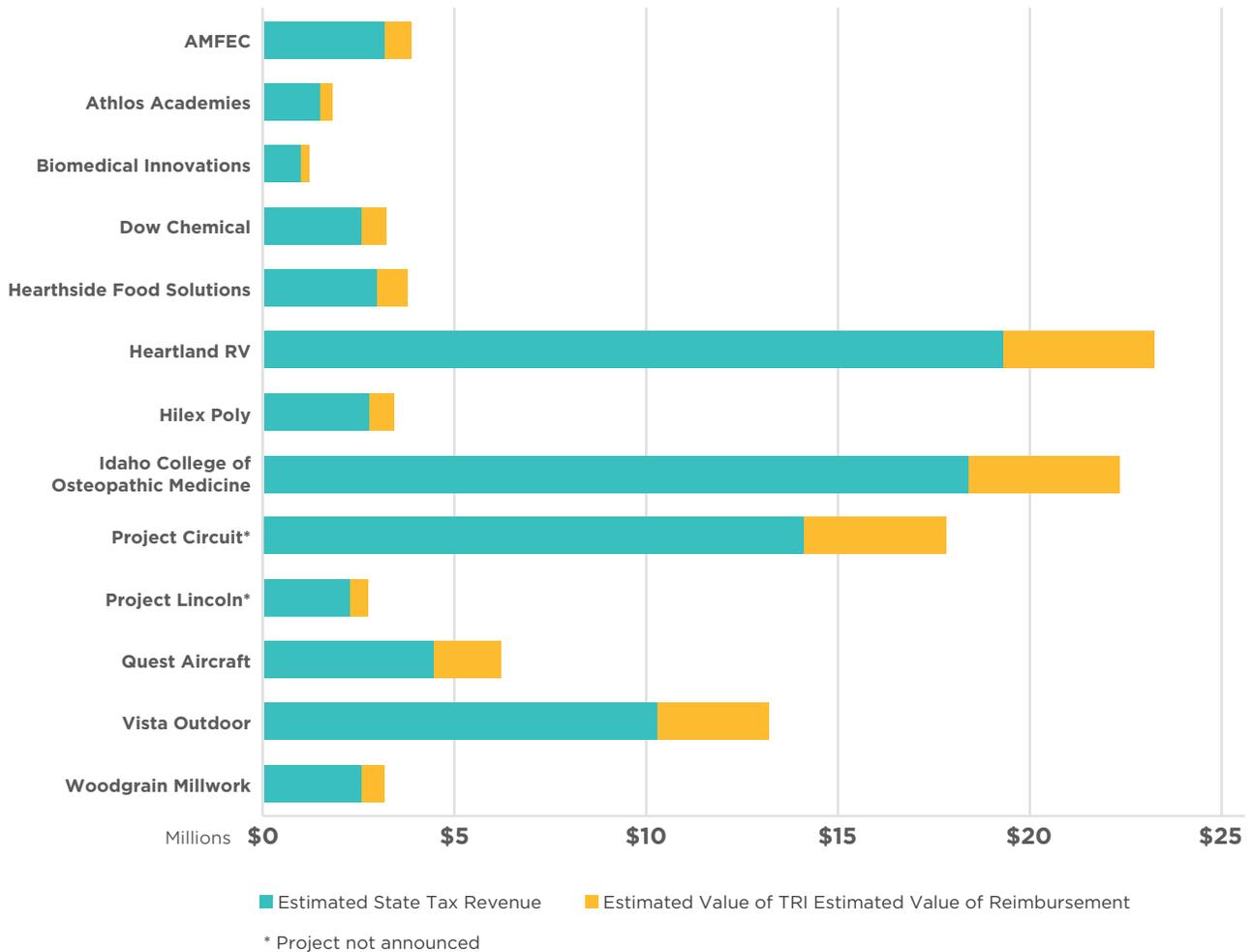
Company / Project Name	City	County	%	Term (years)	Estimated Value of TRI Incentive ^[1]
AMFEC	Nampa	Canyon	21	9	\$665,000
Athlos Academies	Boise	Ada	17	8	\$279,000
Biomedical Innovations	Sandpoint	Bonner	18	9	\$185,000
Dow Chemical	Burley	Cassia	24	9	\$617,000
Hearthside Food Solutions	Boise	Ada	25	10	\$750,000
Heartland RV	Nampa	Canyon	20	10	\$3,900,000
Hilex Poly	Jerome	Jerome	21	15	\$530,000
Idaho College of Osteopathic Medicine	Meridian	Ada	21	10	\$3,900,000
Project Circuit*	Boise Valley	Ada/Canyon	26	15	\$3,700,000
Project Lincoln*	Post Falls	Kootenai	18	8	\$415,000
Quest Aircraft	Sandpoint	Bonner	25	12	\$1,700,000
Vista Outdoor	Lewiston	Nez Perce	28	14	\$2,890,000
Woodgrain Millwork	Fruitland/Emmett	Payette/Gem	22	10	\$583,000
TOTAL					\$20,114,000

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

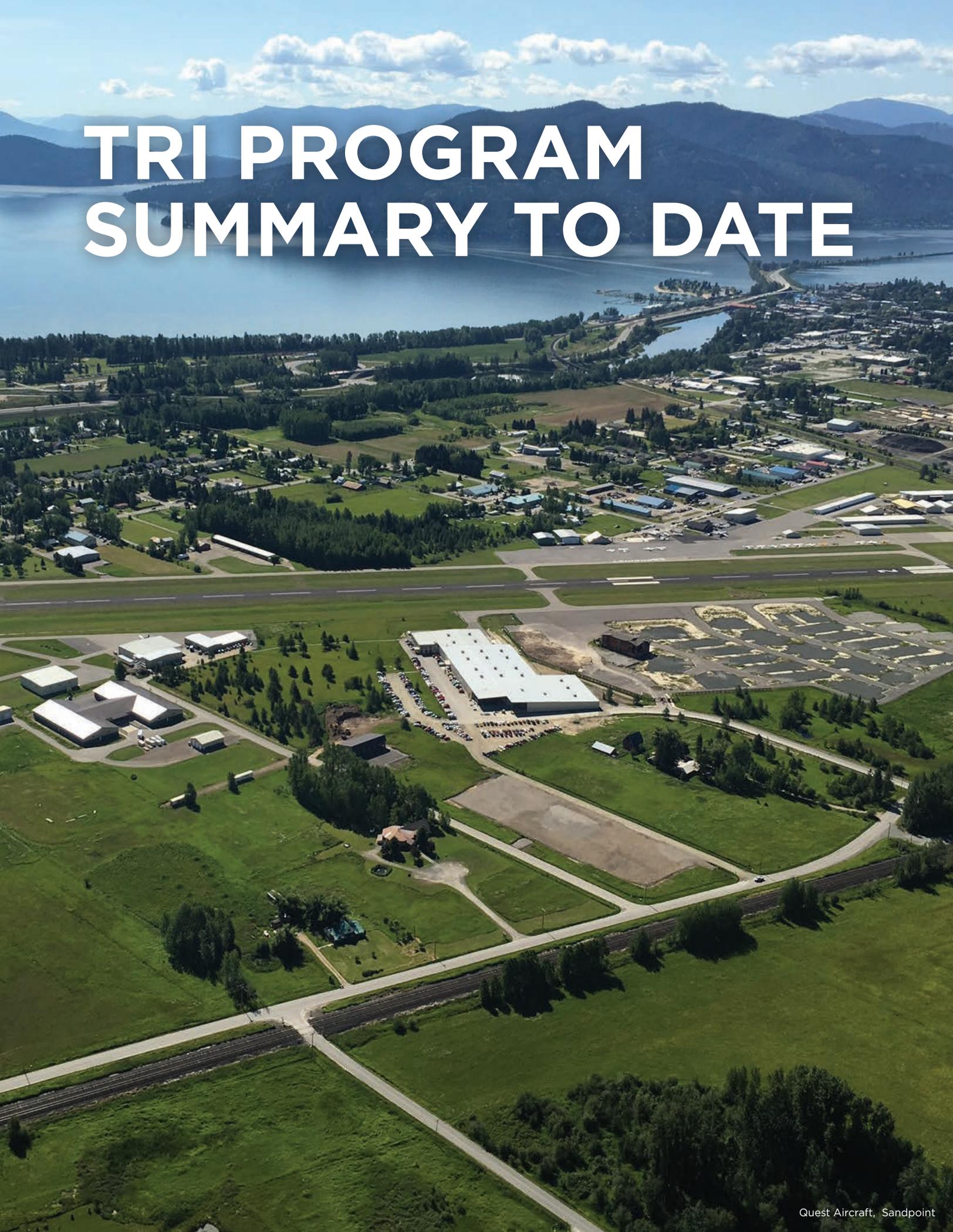
* Project not announced

FY2016 ESTIMATED COSTS AND BENEFITS

When fully implemented, the 13 projects approved in FY2016 are projected to generate an estimated \$78.5 million in new tax revenue for the State of Idaho at a cost of approximately \$20.1 million in estimated tax credits in estimated tax credits to these approved companies.



TRI PROGRAM SUMMARY TO DATE



OVERALL TRI PROGRAM IMPACT

In Fiscal Year 2015, there were no actual costs associated with the TRI as incentivized companies were still in the process of either relocating or commencing operations in Idaho.

Calendar Year 2015 was the first year that actual costs were incurred. When FY2015 incentivized companies completed their annual reporting and qualification for the incentive, they can claim the FY2015 earned TRI credit on their 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. The following information is a cumulative total of all the awarded TRI projects since the program's inception on July 1, 2014.

Projected TRI Program Summary (FY2015- FY2016)

- Approved Projects: **29**
- Average Offer Percentage (%): **22**
- Average Offer Term (years): **10**
- Approved Project Jobs: **4,753**
- Average Project Wage: **\$46,986**
- Total Project Payroll: **\$2,073,059,913**
- Estimated Full-Term Direct State Tax Revenue: **\$221,843,243**
- Total Estimated Incentive Value: **\$51,450,071**
- Gross Return on Reimbursement (ROI): **400%**
- Total Capital Investment: **\$666,323,000**

ACTUAL TRI IMPACT TO DATE

- Actual TRI Credits Earned in CY2015: \$424,494**
- Actual Credits Issued To: 6 companies**
- Actual Jobs Created: 906**
- Actual Average Wage: \$54,824**



INDUSTRIES REPRESENTED



TOTAL PROJECTS TO DATE

Of the 29 total projects approved since the inception of TRI on July 1, 2014, 18 incentivized companies created jobs prior to December 31, 2015.

The following companies have created jobs prior to December 31, 2015.

Company / Project Name	City	TRI%	Term (years)	Job Estimate (over term)	Actual Jobs by Dec. '15
AGC AeroComposites	Hayden	20	8	134	42
Albertsons	Boise	30	15	300	259
Amy's Kitchen	Pocatello	26	15	1,000	288
Aspen Skiing Company	Ketchum	16	3	57	9
ATC Manufacturing, Inc.	Post Falls	20	8	225	66
Athlos Academies	Boise	17	8	50	10
Biomedical Innovations	Sandpoint	18	9	33	10
Diversified Fluid Solutions, LLC	Boise	20	8	50	34
Fabri-Kal	Burley	22	9	150	28
Gayle Manufacturing Company	Caldwell	20	6	105	4
Glanbia, Plc	Gooding	23	10	43	31
Hearthside Foods	Boise	25	10	80	5
Kochava	Sandpoint	28	10	208	32
Paylocity	Boise	28	15	551	8
Quest Aircraft	Sandpoint	25	12	187	6
SkyWest Airlines, Inc.	Boise	25	12	100	74
TOTAL					906

The following projects have not been announced, are under construction, or will report job creation for the first time for Calendar Year 2016.

Company / Project Name	City	TRI%	Term (years)	Job Estimate (over term)
AMFEC	Nampa	21	9	89
Auberge Resorts	Ketchum	16	5	109
Dow Chemical	Burley	24	9	21
Heartland RV	Nampa	20	10	275
Hilex Poly	Jerome	21	15	45
Idaho College of Osteopathic Medicine	Meridian	21	10	90
Project Bentley*	Fruitland/Emmett	22	10	91
Project Circuit*	Boise Valley	26	15	351
Project Lincoln*	Post Falls	18	8	60
Project Pipe*	Pocatello	18	9	80
Project Steel 2*	Hayden	15	7	28
Vista Outdoor	Lewiston	28	14	137
User Interface User Experience (UiUx)	Ketchum	18	5	88

APPENDIX

**IDAHO REIMBURSEMENT INCENTIVE ACT
INDEPENDENT ACCOUNTANTS' REPORT
FOR THE FISCAL YEAR ENDING
JUNE 30, 2016**



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INDEPENDENT ACCOUNTANTS' REPORT

To the Director
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, 2016. 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, 2016.

Harris & Co. PLLC

Meridian, Idaho
August 29, 2016

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Meridian, Idaho 83642

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FINDINGS REPORT
FOR THE YEAR ENDING JUNE 30, 2016

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 2016 from July 1, 2015 through June 30, 2016 (FY2016).

For the fiscal year ended June 30, 2016, the Department has received approval from the Economic Advisory Council (EAC) to enter into 14 Tax Reimbursement Incentive Agreements. This report covers all approved TRI awards for FY2016. The Department continues to accept applications for the TRI program and may have entered into agreements subsequent to June 30, 2016; 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, 2016, 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 Manager 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 Manager 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 Manager 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.

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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 Manager. The team discusses the proposal and the Director settles on a recommended TRI term and percentage within the established incentive range. The Grants & Contracts Manager 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 Manager 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

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& Contracts Manager 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.

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 14 applications that have been approved by EAC as of June 30, 2016. 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.

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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.

Prior Year Recommendations:

Last fiscal year, we recommended 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.

As of June 30, 2016, the Department had implemented all recommendations by updating the application with phrases similar to those suggested and implementing the suggested processes.

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 Manager, 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 14 TRI recommendations by the Director and corresponding informational package provided to the Economic Advisory Council.
2. Inquired of key members of the TRI team.

Evaluation and Recommendations:

Based on the procedures performed all 14 TRI's were appropriately recommended by the Director. The Director's approval was completed.

Based on our inquiry, 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.

Procedures:

1. Reviewed the EAC minutes to ensure that the TRI's were properly approved by the EAC.
2. Reviewed the signed EAC annual ethical responsibility statements. Inquired of key members of the TRI staff to identify any known conflict of interest with EAC members.
3. 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.

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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.

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.

Prior Year Recommendations:

Last fiscal year, we recommended 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, 2016, all board members had submitted a signed ethical responsibility acknowledgement.

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.

Procedures:

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, 2016. 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 6 of the 14 approved TRI's applications have final signed agreements. The remaining approved TRI's as of June 30, 2016, have not been signed by both the applicant and the Department as of date of this report. Per inquiry of the Department, all approved FY16 applications are still considered valid and the final agreement has not been signed due to ongoing negotiations or are pending Applicant choice

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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.

It was noted that 10 of the 16 FY15 applicants had agreements that had not been signed as of June 30, 2015. Of these 10, 8 were signed and received by the Department as of the date of this report. Based on the testing procedures performed, the eight signed TRI agreements from FY15 contain the required information as outlined by Idaho Code 67-4737 through 67-4744. Of the remaining two agreements that were not received, one no longer qualified for the TRI, and the other is on temporary hold.

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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.

Procedure:

We reviewed the submitted annual reporting for the following documentation:

1. Supporting documentation of the new state revenues from the applicant's new project that were paid during the preceding calendar year
2. Supporting documentation of the new jobs that were created during the preceding calendar year
3. Known or expected detriments to the state or existing industries in the state
4. A document that expressly directs and authorizes the tax commission and department of labor to allow the department access to the applicant's returns and other information that may be necessary to verify or otherwise confirm the declared new state revenues
5. 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
6. 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
7. Supporting documentation that the business entity has satisfied the measurements and requirements outlined in the agreement

Evaluation and Recommendations:

It was noted that only 1 annual report had been received as of June 30, 2016. Based on the testing procedures performed, the one applicant's annual reporting was in compliance with the requirements as outlined by Idaho Code 67-4737 through 67-4744. The remaining reports were not received as they were either on extension, or had not qualified for the credit for the 2015 calendar year. Each annual report undergoes a review prior to issuance of the tax credit authorization certificate. As of June 30, 2016 no tax credit authorization certificate had been approved.



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