

IDAHO TAX REIMBURSEMENT INCENTIVE  
FY2018 ANNUAL REPORT





As the Tax Reimbursement Incentive completes its fourth fiscal year assisting businesses across Idaho create jobs and grow wages, I am pleased to report the program continues to make significant and meaningful impact on the state's economy.

The TRI went into effect July 1, 2014 as a tool to assist Idaho Commerce and economic development partners across the state be more competitive nationally on expansion and relocation projects, and support job and wage growth for our citizens. The TRI is a post-performance incentive, meaning benefits are not conferred until after jobs have been created and maintained, wages have been verified, and all commitments have been met.

Beginning in FY2015 through FY2018, a TRI award has been issued to 46 different qualifying businesses. Eight awards were issued in FY2018 alone. While it is still too early to realize the full impact of the awards issued in FY2018, we estimate these projects will create over 1,050 jobs and add over \$412 million in new wages when completed and fully implemented. Through FY2018, over 1870 jobs have been realized and are now employing Idahoans across the state. These jobs are paying an average of \$56,395 annually, clearly above the state's average annual salary.

In many ways, the TRI has defied convention. Initial concerns included caution that awards would mostly go to Idaho's largest urban areas or primarily benefit businesses new to Idaho, leaving behind our rural communities and existing Idaho businesses. Those concerns have not come to fruition. In fact, as the program finishes its fourth year, the opposite has been true. Of the 46 projects awarded through FY2018, 27 awards went to businesses in rural communities, while 19 awards went to urban areas. Existing Idaho businesses have qualified for 25 awards, while businesses new to Idaho have qualified for 21 awards. In FY2018, six awards went to rural areas, two to urban areas and five awards went to expanding Idaho businesses, while three went to businesses new to the state.

Each TRI award is vetted thoroughly and consistently by Idaho Commerce staff and the Economic Advisory Council. The evaluation considers job and wage numbers, local, indirect and induced economic impact, workforce availability and readiness, and contribution to an industry ecosystem.

We are appreciative of the trust Idaho's legislature and chief executive have placed in Idaho Commerce to manage and develop this essential economic development program. We do not take these duties lightly, nor do we take this program for granted. In the following annual report, you will find a comprehensive update of program activity over the last fiscal year and the full life of the incentive. Additionally, we have included the results of an independent audit conducted annually to review program compliance and award accountability.

We look forward to the continued success and positive impact this incentive makes on Idaho businesses and communities.

Bobbi-Jo Meuleman  
Director, Idaho Commerce

# WHAT IS THE TAX REIMBURSEMENT INCENTIVE?

The Idaho Tax Reimbursement Incentive (TRI), which went into effect on July 1, 2014, is a post-performance tool that enables qualifying companies to receive a refundable tax credit of up to 30% on all state 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 TRI:

- 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

Idaho 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 Idaho 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 an independent audit 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.

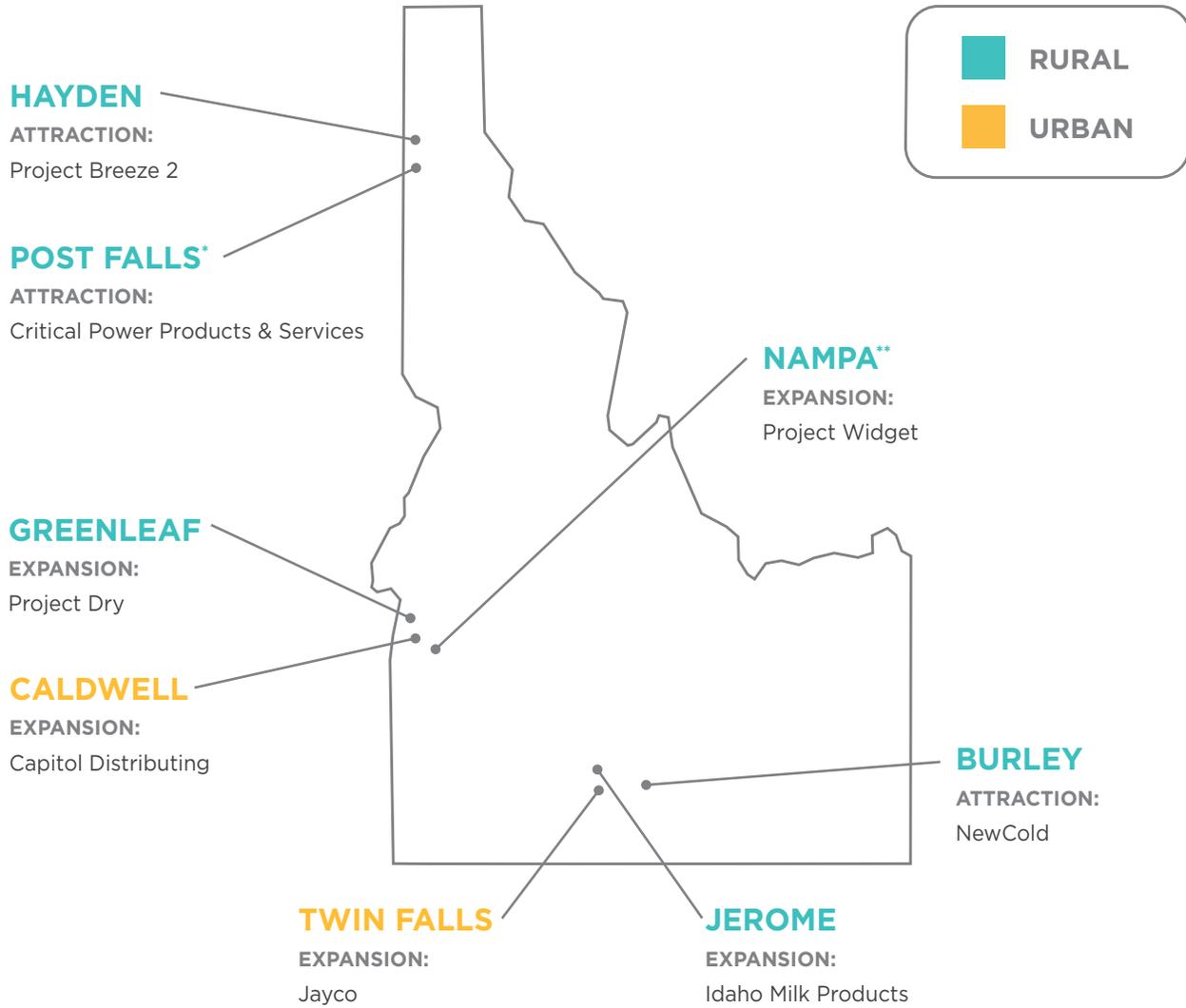
## COMPANY REPORTING

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

# FY2018 ANNOUNCED PROJECTS



# FY2018 TOTAL TRI PROJECTS



\*Project is based in unincorporated Kootenai County. Post Falls is the nearest city.  
 \*\*Project is based in unincorporated Canyon County. Nampa is the nearest city.

LOCATION		TYPE		INDUSTRY	
<b>2</b> Urban	<b>6</b> Rural	<b>5</b> Expansion	<b>3</b> Attraction	<b>3</b> Warehouse & Distribution	<b>2</b> Food Production
				<b>2</b> Advanced Manufacturing	<b>1</b> Software & Technology

# FY2018 SUCCESS STORIES

## CAPITOL DISTRIBUTING

Idaho grocery distribution company, Capitol Distributing, expanded their operations to the Sky Ranch Industrial Park in Caldwell. The project will relocate all 130 existing employees and create 265 additional new jobs at the Caldwell facility with wages well above the Canyon County average at \$42,000 annually.

Capitol Distributing is one of the largest privately held corporations in Idaho. The company distributes food, beverages, various sundries, and merchandise to more than 450 locations across six western states – Idaho, Washington, Oregon, Nevada, Arizona, and Utah. The new facility in Caldwell will have office space, a warehouse, and manufacturing with the intent to grow capacity for distribution, as well as diversity in operations to include manufacturing fresh foods and snacks to be sold in their store network.

The project was approved for a TRI award of 24% for 12 years.

## CRITICAL POWER PRODUCTS & SERVICES

In the spring of 2018, Critical Power Products & Services moved from Washington State into a new building in Post Falls. The new facility houses Critical Power's 23 employees, a warehouse, maintenance shop and extensive outdoor yard for storage of the company's growing inventory of new, used and refurbished power generation and backup infrastructure equipment.

A veteran-owned and operated business, Critical Power provides a single point of contact for clients wanting to dispose of and/or acquire reliable data center environmental and power equipment. In addition to providing data center services, Critical Power specializes in new, used and refurbished generators, air-handling equipment, uninterrupted power supply units, power distribution units, chillers, cooling towers, and raised-access flooring for industrial applications.

The project was approved for a TRI award of 14% for 7 years.

## IDAHO MILK PRODUCTS

Idaho Milk Products, an international milk processing leader supplying Milk Protein Concentrate (MPC), Milk Permeate, and Cream derivatives to customers around the world, plans to grow their specialized MPC and dairy ingredients business through a \$31 million expansion to its Jerome facility.

Owned by local Idaho dairy farmers, Idaho Milk Products has a dedicated, consistent milk supply and delivers reliable, quality dairy ingredients. With the help of a TRI award, this project will expand processing capacity by one third – accommodating an additional 1 million pounds per day of locally sourced milk. The project will also include investments in new research & development capabilities, enhanced employee facilities and an expanded warehouse. When completed in August 2019, this expansion will create 53 new jobs at over \$51,000 in annual wages. In addition to the research & development positions, the expansion will also create jobs in quality assurance, administration, warehousing, production and transportation.

This project was approved for a TRI award of 25% for 10 years.

## JAYCO

Jayco, Inc., manufacturer of towable and motorized RVs through its Jayco, Starcraft, Entegra Coach, and Highland Ridge RV divisions, added a production facility to their Twin Falls campus. After opening their original facility in Idaho in 2005, this new expansion, initiated to improve service to dealers in the western United States and Canada, maximizes and expands upon existing synergies and infrastructure built over the past decade at their Idaho campus.

By early 2019, the expansion is expected to bring approximately 360 new jobs to the region at an average annual wage of over \$43,000. Additionally, Jayco will be partnering with the College of Southern Idaho's Workforce Development Program to assist with training and onboarding of new employees, further advancing marketable skills throughout the Magic Valley.

The project was approved for a TRI award of 24% for 12 years.

# FY2018 SUCCESS STORIES

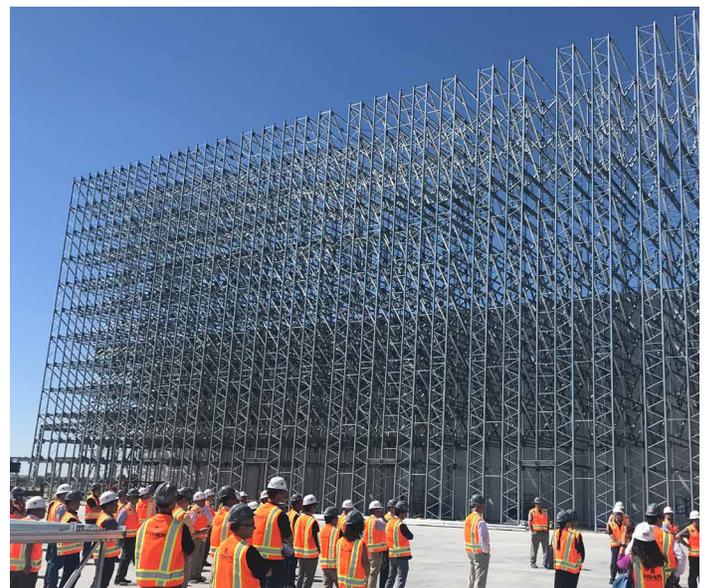


## NEWCOLD

Netherlands-based deep-frozen storage and logistics specialist NewCold broke ground on their second U.S. facility. NewCold will invest \$90 million to build a 140-foot-high, 25 million cubic feet, sub-zero cold storage warehouse in Burley. The project is estimated to create 68 jobs at an average wage of over \$44,000 annually. When the facility opens in the spring of 2019, the fully automated building will serve frozen food producers throughout the area.

The cold storage facility currently being constructed uses leading-edge technology, including automated storage and retrieval systems (ASRS) to automatically move and store products in the 'dark' high-bay warehouse. Operators direct equipment using advanced software systems, while products are kept in optimal conditions with all cold storage areas cooled to sub-zero temperatures. NewCold offers a highly consistent level of logistic service. Above all, NewCold offers a more energy-efficient and better food safety alternative compared to conventional cold storage solutions.

The project was approved for a TRI award of 25% for 12 years.



# FY2018 ESTIMATED IMPACT TO THE STATE

When fully implemented, the eight TRI projects approved in FY2018 will create an estimated 1,058 jobs in the state. These projects will generate approximately \$192 million in new capital investment, are estimated to generate \$47 million in new tax revenue to the state, and more importantly, will bring over \$412 million in new payroll to the state, resulting in an estimated 4:1 return on investment to the state's General Fund.

## RETURN ON INVESTMENT: 448%

Company	Est. Jobs	Est. Average Wage	Est. Total Project Payroll	Est. State Tax Revenue	Est. Capital Investment
Capitol Distributing	265	\$42,400	\$67,300,000	\$4,900,000	\$30,000,000
Critical Power Products & Services	23	\$91,600	\$14,700,000	\$1,800,000	\$2,600,000
Idaho Milk Products	53	\$51,300	\$25,900,000	\$2,100,000	\$31,000,000
Jayco	360	\$43,300	\$170,500,000	\$20,400,000	\$21,000,000
NewCold	68	\$44,700	\$31,300,000	\$4,800,000	\$80,000,000
Project Breeze 2	59	\$73,400	\$43,300,000	\$3,300,000	\$3,000,000
Project Dry	50	\$34,200	\$9,100,000	\$540,500	\$3,500,000
Project Widget	180	\$48,800	\$50,100,000	\$9,800,000	\$21,000,000
<b>Total / Average</b>	<b>1,058</b>	<b>\$46,800</b>	<b>\$412,200,000</b>	<b>\$47,640,500</b>	<b>\$192,100,000</b>

# FY2018 ESTIMATED TAX CREDIT COMMITMENTS

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The average FY2018 TRI award was **22% over an average term of 10 years, significantly less than the maximum available award of 30% for 15 years.**

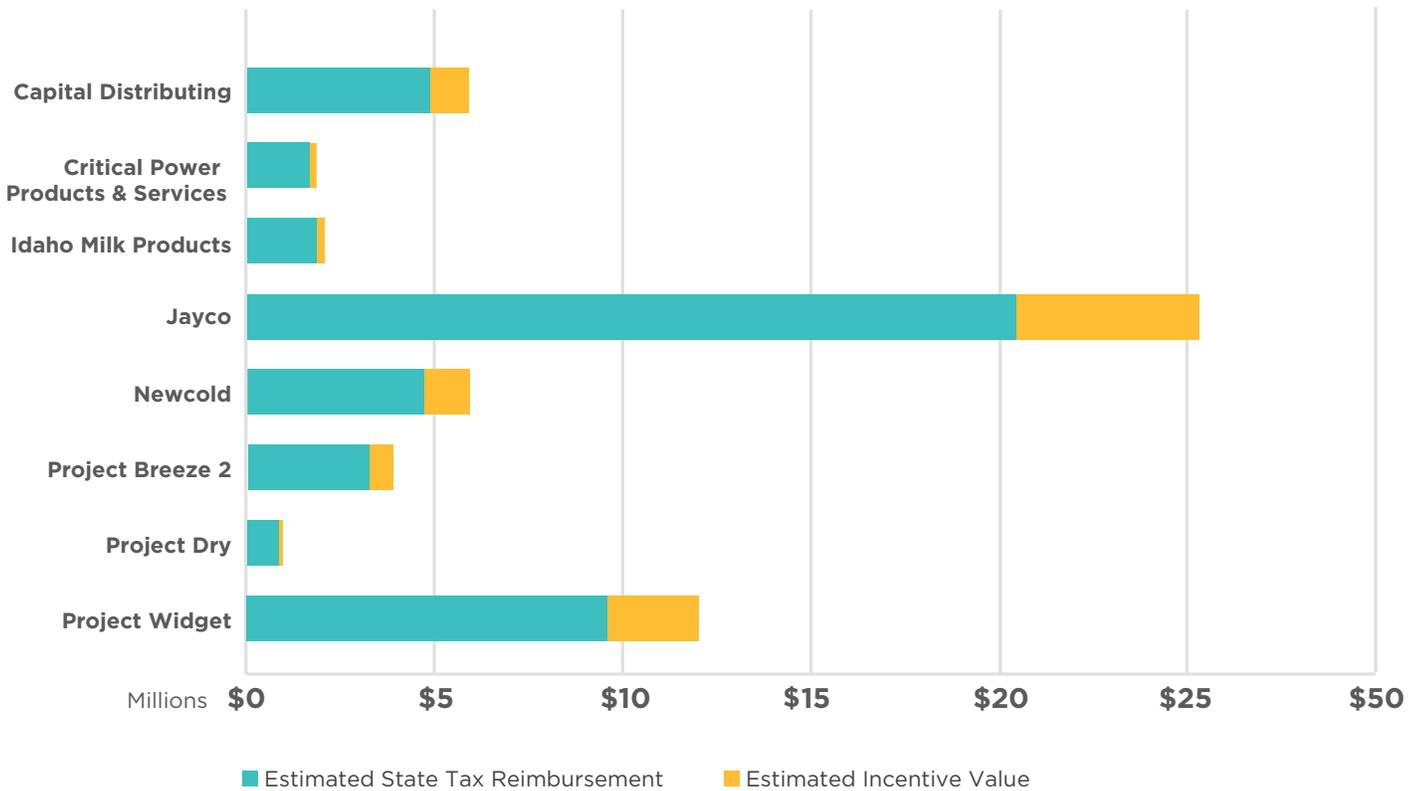
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At full term, the aggregated value of tax reimbursements awarded in FY2018 will total \$10.6 million across all projects at full term.

<b>Company</b>	<b>City</b>	<b>County</b>	<b>Percentage Awarded</b>	<b>Term (Years)</b>	<b>Estimated Incentive Value</b>
Capitol Distributing	Caldwell	Canyon	24%	12	\$1,180,000
Critical Power Products & Services	Post Falls	Kootenai	14%	7	\$254,500
Idaho Milk Products	Jerome	Jerome	25%	10	\$267,000
Jayco	Twin Falls	Twin Falls	24%	12	\$4,900,000
NewCold	Burley	Cassia	25%	12	\$1,200,000
Project Breeze 2	Hayden	Kootenai	23%	10	\$761,000
Project Dry	Greenleaf	Canyon	18%	8	\$97,000
Project Widget	Nampa	Canyon	22%	10	\$1,970,000
<b>Total</b>					<b>\$10,629,500</b>

# FY2018 ESTIMATED COSTS AND BENEFITS

When fully implemented, the eight projects approved in FY2018 are projected to generate an estimated \$47.6 million in new state tax revenue at a cost of approximately \$10.6 million in estimated tax credits to these approved companies.



# TRI PROGRAM SUMMARY TO DATE

## OVERALL TRI PROJECT IMPACT

Idaho Commerce has managed the TRI program within its existing staff operational budget. No new staff or operational dollars have been used to support this program.

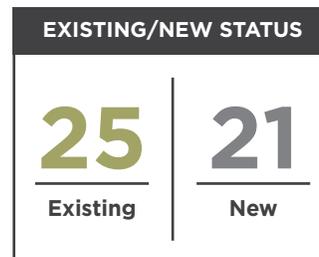
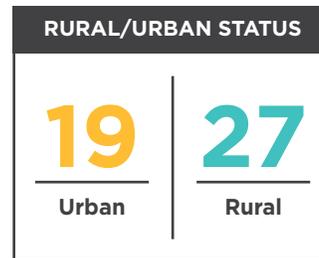
The following information is a cumulative total of all the awarded TRI projects since the program's inception on July 1, 2014.

## PROJECTED TRI PROGRAM SUMMARY (FY2015-FY2018)

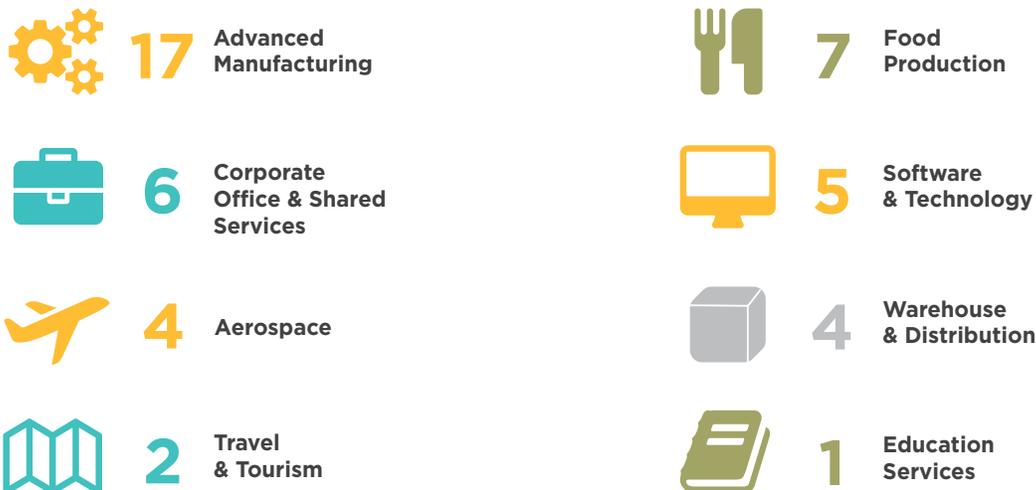
- Approved Projects: **46**
- Average Offer Percentage: **21%**
- Average Offer Term: **10**
- Approved Projects Jobs: **7,819**
- Average Projects Annual Wage: **\$46,575**
- Total Projects Payroll: **\$3,570,696,000**
- Estimated Full-Term Direct State Tax Revenue: **\$367,273,000**
- Total Estimated Incentive Value: **\$87,802,700**
- Gross Return on Reimbursement (ROI): **418%**
- Total Capital Investment: **\$1,198,900,000**

# ACTUAL TRI IMPACT TO DATE

- Actual TRI Credits Requested in CY2017: **\$1,555,642**
- Actual TRI Credits Issued in CY2017: **\$1,301,401**
- Actual Credits Requested To Date: **\$3,239,445**
- Actual Credits Issued To Date: **\$2,699,286**
- Companies Issued Credits To Date: **10**
- Jobs Forecasted To Date: **2340**
- Actual Jobs Created To Date: **1873**
- Actual Average Wage To Date: **\$56,395**



## INDUSTRIES REPRESENTED:



# TOTAL PROJECTS TO DATE

Of the 46 projects approved since the inception of the TRI program on July 1, 2014, 19 incentivized companies have created jobs prior to December 7, 2018, when the reporting period closed. 10 of these companies which were issued a credit. The following companies have created jobs and/or began operations prior to the reporting period closing on December 7, 2018.

<b>Company / Project Name</b>	<b>City</b>	<b>TRI %</b>	<b>Term</b>	<b>Est. Job Count (over full term)</b>	<b>Actual Jobs Created</b>
Albertsons	Boise	30	15	300	381
AMFEC	Nampa	21	9	89	81
Amy's Kitchen	Pocatello	26	15	1,000	565
Aspen Skiing Company	Ketchum	16	3	57	58
ATC Manufacturing, Inc.	Post Falls	20	8	225	103
Athlos Academies	Boise	17	8	50	0*
Biomedical Innovations	Sandpoint	18	9	33	17
Dow Chemical Company	Burley	24	9	21	23
Fabri-Kal	Burley	22	9	150	57
Gayle Manufacturing	Caldwell	20	6	105	33
Glanbia	Gooding	23	10	43	33
Hearthside Food Solutions	Boise	25	10	80	93
Idaho College of Osteopathic Medicine	Meridian	21	10	90	34
Kochava	Sandpoint	28	10	208	83
Orgill, Inc.	Post Falls	26	10	138	169
Skywest	Boise	25	12	100	95
SmakPlastics	Hayden	15	7	45	18
Vista Outdoor	Lewiston	28	14	137	60
Wildwood Grilling	Sandpoint	14	7	21	9

\*Athlos Academies created jobs in previous calendar years, but did not create TRI jobs in CY2017.

The following projects and companies have received a TRI award but have not yet created jobs, have not yet reported on jobs created, have not yet met the requirements necessary to receive a credit or are simply too early in the process at the time of publishing.

<b>Company / Project Name</b>	<b>City</b>	<b>TRI %</b>	<b>Term</b>	<b>Est. Job Count (over full term)</b>
AGC AeroComposites	Hayden	20	8	134
Auberge Resorts	Ketchum	16	3	109
Capitol Distributing	Caldwell	24	12	265
Critical Power Products & Services	Post Falls	14	7	23
Diversified Fluid Solutions	Boise	20	8	50
Heartland RV	Nampa	20	10	275
Hilex Poly / Novolex	Jerome	21	15	45
Idaho Milk Products	Jerome	25	10	53
Intrinsic Organics	Weiser	18	6	52
Jayco Inc	Twin Falls	24	12	360
Jelli, Inc.	Boise	20	8	92
McCain	Burley	30	15	186
NewCold	Burley	25	12	68
Paylocity	Meridian	28	15	551
Project Dry	Greenleaf	18	8	50
Project Steel 2	Hayden	15	7	28
Project Widget	Nampa	22	10	180
Quest Aircraft	Sandpoint	25	12	187
Woodgrain Millwork	Fruitland / Emmett	22	10	91

At this time, the following projects or companies will not be moving forward with job creation or business operations in Idaho and will not be issued credits for their TRI award.

<b>Company / Project Name</b>	<b>City</b>	<b>TRI %</b>	<b>Term</b>	<b>Est. Job Count (over full term)</b>
leeds look listen	Carey	18	9	73
Project Breeze 2	Hayden	23	10	59
Project Circuit	Boise Valley	26	15	351
Project Clipper/Sparrow	Boise Valley	25	14	1400
Project Lincoln	Post Falls	18	8	60
Project Pipe	Pocatello	18	9	80
UiUx (Solu)	Ketchum	18	5	88
Vie Active	Ketchum	10	5	43

## ECONOMIC ADVISORY COUNCIL

The Economic Advisory Council was established under Idaho Code 67-4704. The Council's main purpose is to advise the Governor and Idaho Commerce on goals and objectives that further economic development within the state.

In addition to making Tax Reimbursement Incentive recommendations, the council makes recommendations to the Governor on applications for Community Development and Rural Community Block Grant funding.

In addition, Council members advise their regions on economic development opportunities and represent their interests to state government. The Council consists of seven members, appointed by the Governor, with one member appointed from each of the state's seven economic development regions and one member appointed at-large. Members serve three-year terms and can be reappointed.

### FY2018 MEMBERS INCLUDE:

#### REGION I

**Steve Meyer**, Chair - Parkwood Properties

#### REGION II

**Robin Woods**, Vice Chair - Alturas Analytics, Inc.

#### REGION III

**Mike Reynoldson** - Blue Cross of Idaho

#### REGION IV

**John Craner** - Zion's Bank

#### REGION V

**Rick Phillips** - JR Simplot Company

#### REGION VI

**Mark Young** - Raymond James Financial Services, Inc.

#### REGION VII

**David "Dave" Wilson** - Wilson Construction LLC

#### AT-LARGE

**Sandy Patano** - Sandy Patano Consulting, LLC

# APPENDIX

# Independent Accountants' Report

Idaho Reimbursement Incentive Act

For the Fiscal Year Ended June 30, 2018



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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, 2018. 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, 2018.

*Harris CPAs*

Meridian, Idaho  
October 1, 2018



**IDAHO REIMBURSEMENT INCENTIVE ACT**  
**EXECUTIVE SUMMARY**  
**For the Year Ended June 30, 2018**

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**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 2018 from July 1, 2017 through June 30, 2018 (FY2018).

For the fiscal year ended June 30, 2018, the Department has received approval from the Economic Advisory Council (EAC) to enter into 9 Tax Reimbursement Incentive Agreements. This report covers all approved TRI awards for FY2018. The Department continues to accept applications for the TRI program and may have entered into agreements subsequent to June 30, 2018; however, those agreements are beyond the scope of this report.

**IDAHO REIMBURSEMENT INCENTIVE ACT**  
**EXECUTIVE SUMMARY (Continued)**  
**For the Year Ended June, 30, 2018**

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**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, 2018, 10 Tax Credit Authorization Certificates have been issued since inception.

**IDAHO REIMBURSEMENT INCENTIVE ACT  
PROCESS NARRATIVE  
For the Year Ended June 30, 2018**

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**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.

**IDAHO REIMBURSEMENT INCENTIVE ACT**  
**PROCESS NARRATIVE (Continued)**  
**For the Year Ended June 30, 2018**

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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 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.

**IDAHO REIMBURSEMENT INCENTIVE ACT**  
**PROCESS NARRATIVE (Continued)**  
**For the Year Ended June 30, 2018**

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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 & 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 documents are sent to all Applicant's with executed TRI agreements in the first quarter of each calendar year. Applicants that anticipate qualification for a credit must file a full report with the Department by May 15 of each calendar year unless they have requested an income tax filing extension, in which case the report must be filed by October 15 of the calendar year.

Upon receipt of the Applicant's annual report, the Grants & Contracts Manager reviews the report for compliance and commences verification of the report contents with other subject matter experts within the Department. Applicant employee reports are requested from the Idaho Department of Labor (IDOL) and the contents are cross referenced with the list of new hires and reported wages submitted by the Applicant. A random sampling of 10% of all the Sales and Use tax receipts reported by the Applicant is requested from the Applicant. If the sampling contains errors, a larger sample is requested. For corporate income tax verification, the reported amounts are verified by an in person review of the Applicant tax return held at the Idaho State Tax Commission.

After verification of the report, the Grants & Contracts Manager creates a TRI checklist to determine compliance with the terms of the TRI agreement. The checklist is verified by the Director and staff. The Grants & Contracts Manager then calculates the tax credit amount based on the annual reporting and submits to the Director for final approval.

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**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 9 applications that have been approved by EAC as of June 30, 2018. 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.

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

- 1. The Director of the Idaho Department of Commerce provides the EAC with their 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 9 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 9 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.

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**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.

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*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.

*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 one conflict of interest was declared by a Council member and that EAC member properly recused themselves from voting.

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.

As of June 30, 2018, the department could not produce 3 of the 8 signed ethical responsibility statements. Per inquiry of the department, the statements had been completed by all board members, however 3 of the signed copies were in the possession of an employee who is no longer at the department and the copies could not be located.

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**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, 2018. 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.

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*Evaluation and Recommendations:*

It was noted during our testing that of the 9 approved TRI's as of June 30, 2018, no final agreements had been signed as the date of this report. Per inquiry of the Department, all approved FY18 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.

It was noted that 5 of the 8 FY17 applicants had agreements that had not been signed as of June 30, 2017. Of these 5, 1 decided to not come to Idaho, and the other 4 are 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

We verified the mathematical accuracy of the calculations made by the department to get to the final credit authorization. We also recalculated the factors by which eligibility to receive the credit were determined.

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*Evaluation and Recommendations:*

For the 2016 Calendar Year:

As of June 30, 2018, 28 annual reports were due from applicants for the 2016 calendar year for the department to review. At June 30, 2018, 24 reports had been received and 4 no longer qualified or decided not to do business in Idaho. Of the 24 received, 14 were only required to provide narrative reports as they did not qualify in the current reporting period for a credit and 10 were full reports. Of the 10 full reports, 4 tax credit authorizations were issued, 3 were denied their requested credit, and 3 were still under review by the department. Based on the testing procedures performed, the applicants whose annual reporting was received were in compliance with the requirements as outlined by Idaho Code 67-4737 through 67-4744 and we agree with the department's approval and denial of credits for the 2016 calendar year.

For the 2017 Calendar Year:

As of June 30, 2018, 30 annual reports were due from applicants for the 2017 calendar year for the department to review. At June 30, 2018, 8 reports had been received, 7 were extended additional reporting time by the department, and 15 had not responded to the department's request. Of the 8 received, 3 were only required to provide narrative reports as they did not qualify in the current reporting period for a credit and 5 were full reports. Based on the testing procedures performed, the applicants whose annual reporting was received were in compliance with the requirements as outlined by Idaho Code 67-4737 through 67-4744. The department appears to be following proper procedure with regards to these applicants and may deny the credit if the reports are not timely received.

Each annual report undergoes a review prior to issuance of the tax credit authorization certificate. As of June 30, 2018, 10 credit authorization certificates had been issued for the program to date.



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