

Qualified Facility Tax Credit Program

- Calendar Year 2017 Annual Report

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ARIZONA
COMMERCE AUTHORITY

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Program Overview

The Qualified Facility Tax Credit Program (the “Program”) was established to promote the location and expansion of manufacturing facilities, including manufacturing-related headquarters and research and development facilities, for the sake of i) generating high quality employment opportunities for Arizonans, ii) increasing Arizona’s property tax base and iii) enhancing Arizona’s position as a center for manufacturing. The Program achieves these goals by providing refundable income tax credits to businesses expanding or locating qualified facilities in Arizona.

In combination with the Renewable Energy Tax Incentive Program (A.R.S. § 41-1511), the Arizona Commerce Authority (“Commerce”) is authorized to pre-approve refundable income tax credits of up to \$70 million each calendar year.¹ Preapprovals in respect to any taxpayer in any calendar year are limited to \$30 million.

Refundable income tax credits under the Program equal the lesser of:

- 10% of the qualified investment made at the facility
- \$20,000 per qualified job created at the facility, or
- \$30 million per taxpayer per year.

A business is eligible for Program tax credits if it:

- 1) Makes a qualifying capital investment, on or after July 1, 2012, to establish or expand a facility that devotes at least 80% of both the property and payroll at the facility to one or more of the following:
 - a. Qualified manufacturing if at least 65% of the manufactured products are sold outside of Arizona,
 - b. Qualifying research and development if conducted by a manufacturing business that derives at least 65% of its revenues from sales outside of Arizona, or
 - c. Qualified headquarters activities for a manufacturing business that derives at least 65% of its revenues from sales outside of Arizona, *and*
- 2) Creates net new employment positions at the facility at least 51% of which are paid a wage equal to or greater than 125% of the state’s annual median wage for production occupations if located in an urban area or 100% of the state’s annual median wage for production occupations if located in a rural area. The net new employment positions must be:
 - a. Full-time and permanent (1,750 hours per year),

¹ The Program commenced in 2013 and is scheduled to terminate at the end of 2022. Beginning in Calendar Year 2018, the \$70 million cap is no longer shared with the Renewable Energy Tax Incentive Program and will all be available for Qualified Facility credits.

- b. Filled for at least 90 days by an employee who has not worked for the taxpayer within 12 months before the date of hire (other than an employee relocating to Arizona from another state),
- c. Primarily performed at the facility, and
- d. Offered health insurance at least 65% of the cost of which is paid by the employer.

If a business satisfies the Program's eligibility requirements, Commerce will issue a certification of pre-approval to and reserve tax credits for the applicant-business. After the qualified facility begins operations, the business can apply to Commerce for post-approval, at which point the applicant-business must submit a managed review report to Commerce, prepared by a third-party CPA, that confirms the extent of the business's investment and job creation and a post-approval application. If the applicant-business receives "post-approval," the applicant-business may claim Program tax credits with the Arizona Department of Revenue in five equal annual installments.

Reporting Requirements

Pursuant to A.R.S. § 41-1512(U) and (V), Commerce is required to prepare and publish an annual report, not later than April 30 of each year, providing the following Program information in respect to the preceding calendar year:

1. The name of each business receiving pre-approval and the amount of income tax credits pre-approved for each business's qualifying investment,
2. The amount of income tax credits post-approved with respect to each qualifying investment,
3. A percentage comparison of (i) the annual amount of monies credited by Arizona to qualified facilities with (ii) the estimated amount of monies spent in Arizona in the form of qualifying investments, and
4. Data on growth in Arizona of qualified facilities and related employment and wages.

Calendar Year 2017 Program Activity

- I) Pre-Approvals.

During calendar year 2017, Commerce issued pre-approvals to nineteen businesses. The names of the businesses and the amount of Program income tax credits pre-approved for each business are reflected in the chart below.

Calendar Year 2017 Pre-Approvals	
Business Name	Pre-Approved Tax Credit Amount
Huhtamaki, Inc.	\$2,140,000
Leaktite Inc.	\$960,000
Rogers Corporation	\$780,000
Rogers Corporation	\$1,172,500
Rogers Corporation	\$140,000
Rogers Corporation	\$920,000
Infineon Technology Americas Corporation	\$600,000
Raytheon Company	\$24,000,000
Novembal USA, Inc.	\$1,000,000
RJR Technologies, Inc.	\$398,500
Modern Industries, Inc.	\$3,800,000
CGM, LLC	\$5,000,000
Versum Materials, Inc.	\$2,100,000
Central Admixture Pharmacy Services, Inc.	\$2,006,073
Hop Knot Brewing, LLC	\$760,000
Benchmark Electronics, Inc.	\$3,100,000
Pilgrim Screw Corporation	\$35,000
Total	\$48,912,073

II) Post-Approvals.

During calendar year 2017, Commerce issued Post-approvals to two businesses. The names of the business and the amount of Program income tax credits post-approved for each business are reflected in the chart below.

Calendar Year 2017 Post-Approvals	
Business Name	Post-Approved Tax Credit Amount
Carlisle Companies Incorporated	\$400,000
CornellCookson, Inc.	\$340,000
Total	\$740,000

Comparison of Program Tax Credits with Facility Investments

Based on data provided in the seventeen applications that received pre-approvals, pre-approved tax credits in calendar year 2017 represented approximately eight percent (8%) of the 2017 projected qualifying investment in new and expanding facilities: \$48,912,073 in pre-approved tax credits in relation to \$598,713,728 of projected qualifying investment.

Industry Growth Data

Manufacturing represents a vital aspect of the Arizona economy. According to preliminary estimates from Emsi,² 159,502 people worked in 4,627 manufacturing establishments in Arizona in 2017. The average annual wages and salaries for manufacturing positions in Arizona was \$73,296 in 2017, which is 48.9 percent higher than the state's average wage across all industries. Furthermore, each manufacturing job in Arizona is estimated to support an additional 1.34 jobs, which means that, based on current 2017 employment estimates, manufacturing activities in Arizona supported an *additional* 213,700 jobs in Arizona.³

Based on 2017 employment⁴, Arizona's three largest manufacturing sectors were aerospace products and parts manufacturing, semiconductor and other electronic component manufacturing and navigational, measuring, electromedical, and control instruments manufacturing.

In 2017, manufacturers in Arizona exported \$18.1 billion in manufactured goods, 15.6 percent more than in 2013.⁵ Manufactured goods exports also accounted for 86.5 percent of the state's total exports in 2017.⁶ Finally, according to the most recent Bureau of Economic Analysis statistics, manufacturing's contribution to Arizona's gross domestic product (GDP) totaled \$24.4 billion,⁷ which represents 8.1 percent of the state's total GDP.⁸

² Emsi is a private data provider that uses publicly available data from federal statistical agencies in conjunction with a proprietary model to provide estimates for labor market information statistics. Estimates provided here are from Emsi's 2018.1 QCEW & non-QCEW dataset. 2017 figures are projections based on data for the first two quarters of 2017.

³ Multiplier provided by Elliott D. Pollack & Company.

⁴ Using the North American Industry Classification System (NAICS) codes at the 4-digit level.

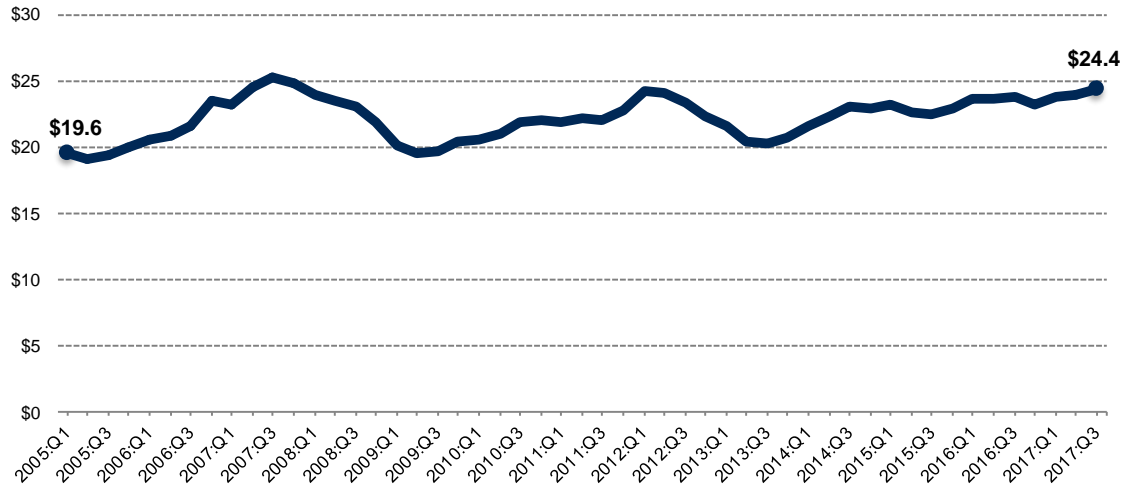
⁵ Not adjusting for inflation.

⁶ IHS Global Trade Atlas, accessed March 12, 2018.

⁷ Bureau of Economic Analysis quarterly real GDP by state in chained 2009 dollars. Most recent data are for Q3 2017. Accessed March 12, 2018.

⁸ Bureau of Economic analysis GDP by state in current dollars. Accessed March 12, 2018.

Arizona's Manufacturing Output, 2005 to 2017



Sources: Bureau of Economic Analysis quarterly real gross domestic product by state. Figures in billions of chained 2009 dollars. Accessed 3/12/2018.

Arizona Commerce Authority

ARIZONA COMMERCE AUTHORITY
April 30, 2018