

Qualified Facility Income Tax Credit Program

- Calendar Year 2013 Annual Report

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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 research and development or headquarters facilities. The goal of the Program is to encourage business investments that produce high quality employment opportunities for citizens of Arizona and enhance Arizona’s position as a center for manufacturing, commercial research and manufacturer headquarters. The Program accomplishes this goal by providing a refundable income tax credit to businesses that expand or locate a qualified facility in Arizona.

The refundable income tax credit is equal to the lesser of:

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

A business may be eligible for Program tax credits if it:

- 1) Makes a 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. Manufacturing if at least 65% of the products are sold outside of Arizona,
 - b. Research and development if activities are conducted for a manufacturing business that derives at least 65% of its revenues from sales outside of Arizona, or
 - c. Headquarters activities for a manufacturing business that derives at least 65% of its revenues from sales outside of Arizona.
- 2) Creates net new employment positions at the facility of which at least 51% must be paid at least 125% of the Arizona median wage. Net new positions must be:
 - a. Full-time and permanent (1,750 hours per year),
 - b. Filled for at least 90 days by an employee who has not worked for the taxpayer within 12 months before the current date of hire,
 - c. Primarily performed at the facility, and
 - d. Include health insurance benefits at least 80% of the cost of which is paid by the employer.

If the business is eligible, Commerce will issue pre-approval and reserve tax credits for the applicant-business. Once the facility “begins operations” the applicant-business must enter into a “written managed review” with Commerce and a third party CPA. Following the managed review, the applicant-business can apply to Commerce for post-approval. If the applicant-business receives post-approval from Commerce, the tax credits are claimed with the Arizona Department of Revenue in five equal annual installments.

Reporting Requirements

Under A.R.S. § 41-1512(U) and (V), Commerce is required to prepare and publish an annual report, no later than April 30 of each year, with the following Program information:

1. The name of each business and the amount of income tax credits pre-approved for each 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 to (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 2013 Business Activity

In combination with the Renewable Energy Tax Incentive Program (A.R.S. § 41-1512(J)), Commerce is authorized to pre-approve refundable tax credits of up to \$70,000,000 each calendar year between 2013 through 2019. Details on the amounts pre-approved under the Renewable Energy Tax Incentive program can be viewed on our website at www.azcommerce.com.

I) Pre-Approvals.

During 2013, the initial year of the Program, Commerce received a total of seven applications for pre-approval. Four businesses demonstrated eligibility and received pre-approval under the program, as shown in the chart following this paragraph. Two applications are currently under review by Commerce pending receipt of additional information from the applicant-businesses. The remaining applicant-business opted to withdraw its application from consideration.

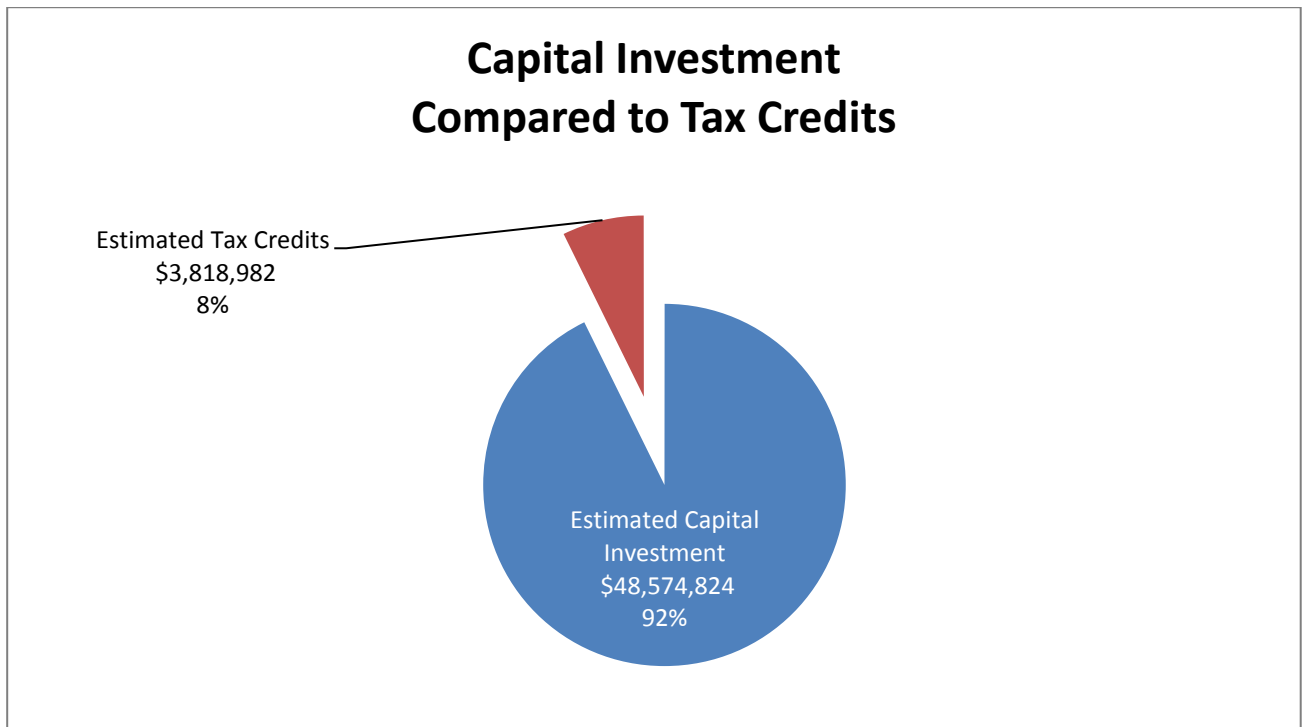
Calendar Year 2013 Pre-Approvals (as of April 30, 2014)	
Applicant Business Name	Pre-Approved Tax Credit Amount
IO Data Centers	\$2,520,000
Garmin International, Inc.	\$1,100,000
Franklin Foods	\$100,000
Fluidic Energy	\$98,982
Total:	\$3,818,982

- II) Post-Approvals.
No activity.

Comparison

Based on the data provided by the four pre-approved applicant-businesses, pre-approved tax credits represent 8% of the anticipated qualifying investment in new and expanding facilities (\$3,818,982 in pre-approved credits / \$48,574,824 of anticipated investment).

The comparison above is based on the estimates submitted by the applicant-businesses at the time of pre-approval. A true comparison based on the actual dollar amounts of tax credits claimed is unavailable until post-approvals are obtained and tax returns are submitted to the Arizona Department of Revenue following commencement of facility project operations. (The post-approved tax credit dollar amount may be less than the pre-approved amount but never higher.)

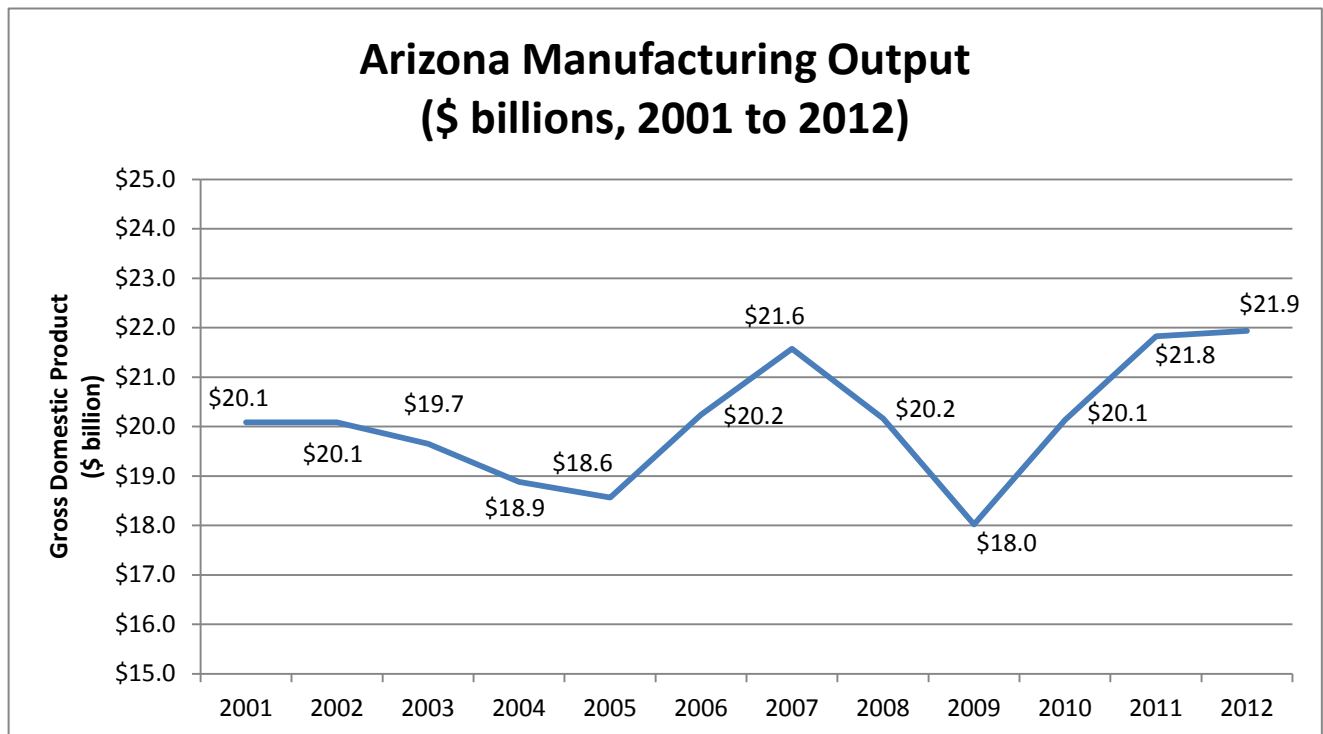


Industry Growth Data

Manufacturing exists in every county of the State of Arizona, including its most urban centers and most rural outposts. Across the State’s fifteen counties, manufacturing reflects diverse industry sectors and technologies, small and large companies, suppliers, OEMs, and scientific and technical service companies. Arizona’s manufacturers are diverse in many ways: their geography, their size,

their product lines, their position in supply and value chains, their markets, the types of industry they support, the technologies that support them, and the level of continuous innovation they employ. The manufacturing industry represents a vital aspect of Arizona’s economy. 2012 U.S. BLS data indicates that there are approximately 154,000 jobs across 4,666 manufacturing establishments in Arizona. One manufacturing job in Arizona supports an additional 1.29 jobs, which means that there are 198,660 additional jobs in Arizona that are supported by manufacturing. The average wages for a manufacturing position in 2012 was \$68,964¹, more than 50% higher than the average wage for all positions in Arizona.

Manufacturers help to drive Arizona’s economy, with \$15.1 billion in manufactured goods exported in 2012. Manufacturing accounts for 82.2% of Arizona’s exports. Arizona’s manufacturing activity accounts for 8.2% of the total output in the state. Total output from manufacturing in 2012 was \$21.9 billion, an increase of \$100 million from 2011 as detailed in the below. The largest sectors for manufactured goods were: electrical machinery, aircraft, spacecraft, machinery, and optics.



¹ \$68,964 is the average wage for all manufacturing-related occupations in Arizona by North American Industry Classification System (NAICS) codes, including positions in sales, research and development and executive management.