

Qualified Facility Tax Credit Program

- Calendar Year 2016 Annual Report

Prepared by the:

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),
 - 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. Offer health insurance at least 65% of the cost of which is paid by the employer.

¹ The Program commenced in 2013 and is scheduled to terminate at the end of 2022.

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 2016 Program Activity

I) Pre-Approvals.

During calendar year 2016, Commerce issued pre-approvals to four 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 2016 Pre-Approvals	
Business Name	Pre-Approved Tax Credit Amount
Carlisle Corporation, Inc.	\$400,000
Hexcel Corporation	\$3,940,000
IRIS USA, Inc.	\$2,800,000
Katerra Inc.	\$1,640,000
Total	\$8,878,000

II) Post-Approvals.

During calendar year 2016, Commerce issued Post-approvals to three 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 2016 Post-Approvals	
Business Name	Post-Approved Tax Credit Amount
CMC Steel Arizona	\$760,000
Essai, Inc.	\$260,000
Garmin International, Inc.	\$840,000
Total	\$1,860,000

Comparison of Program Tax Credits with Facility Investments

Based on data provided in the four applications that received pre-approvals, pre-approved tax credits in calendar year 2016 represented approximately six percent of the 2016 projected qualifying investment in new and expanding facilities: \$8,878,000 in pre-approved tax credits in relation to \$161,400,000 of projected qualifying investment.

Industry Growth Data

Manufacturing represents a vital aspect of the Arizona economy. According to preliminary estimates from Emsi,² 158,300 people worked in more than 4,600 manufacturing establishments in Arizona during 2016. Average annual wages and salaries for manufacturing positions in Arizona amounted to \$72,100 in 2016, 52.1 percent higher than the state's average wage across all industries. Furthermore, each manufacturing job in Arizona is estimated to support an additional 1.4 jobs, meaning manufacturing activities in 2016 supported an *additional* 221,600 jobs in Arizona.³

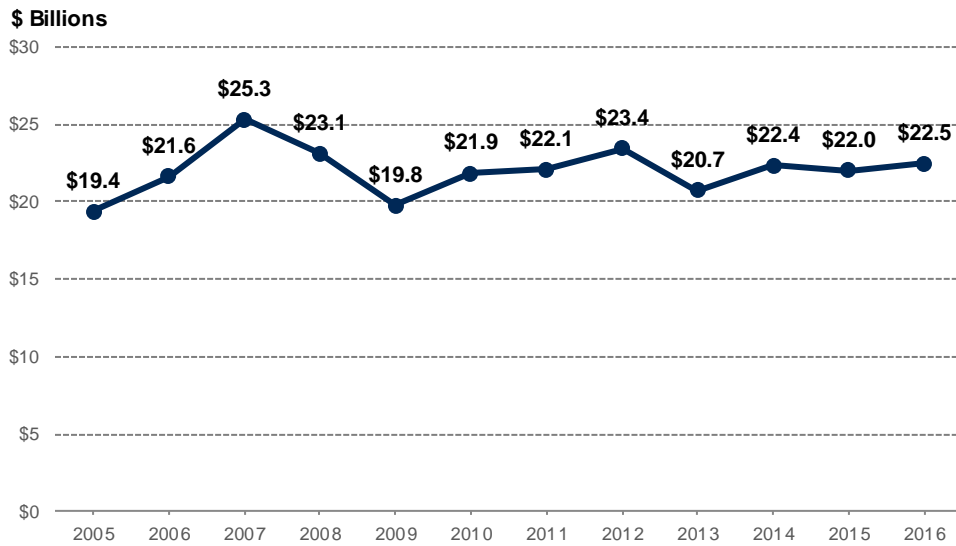
² Emsi is a private data provider that uses publicly available data from federal statistical agencies in conjunction with a proprietary model to provide estimates for labor market information statistics. Estimates provided here are from Emsi's 2017.1 QCEW & non-QCEW dataset. 2016 figures are forecasts.

³ Multiplier obtained from Elliott D. Pollack & Company.

Based on 2016 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 2016, manufacturers in Arizona exported \$18.5 billion in manufactured goods, 22 percent more than in 2012. Manufactured goods exports also accounted for 83 percent of the state’s total exports in 2016.⁵ Finally, according to the most recent Bureau of Economic Analysis statistics⁶, manufacturing’s contribution to Arizona’s gross state product (GSP) amounted to \$22.5 billion, representing 8.4 percent of the state’s total GSP.

Arizona’s Manufacturing Output, 2005 to 2016



Sources: Bureau of Economic Analysis
 Data note: Quarterly real GDP data. Uses third quarter values.
 Arizona Commerce Authority

ARIZONA COMMERCE AUTHORITY
 April 30, 2017

⁴ Using the North American Industry Classification System (NAICS) codes at the 4-digit level.
⁵ IHS Global Trade Atlas, accessed March 3, 2017.
⁶ Quarterly Real GDP by state in chained 2009 dollars.