



MAGIC FUND

Annual Compliance

Report

2005

**Compiled by the City of Minot
Finance Department
515 2nd Ave SW
Minot, ND 58701
710-857-4784**

Annual Report of

MINOT AREA GROWTH BY INVESTMENT AND
COOPERATION
(The "Magic Fund")

to

City Council of Minot

Date: August 22, 2006

David Hogue, Chairman

INTRODUCTION

In 1990, the voters of the city of Minot approved imposition of a one cent city sales tax. Revenue from the sales tax is dedicated to improvements to city infrastructure, property tax relief, and economic development. Forty percent of the one cent sales tax, the percentage allocated to economic development efforts, is accumulated in a city fund called the Minot Area Growth by Investment and Cooperation Fund (the "MAGIC Fund" or the "Fund").

The voters of Minot extended the one-cent sales tax in June of 2004. The extension runs through June 30, 2014 and continues with the 40% allocation for economic development.

An advisory citizen committee supervises disbursement of a portion of the MAGIC Fund revenue. The mayor, with the consent of the Minot City Council ("Council"), appoints members to the MAGIC Fund Screening Committee (the "Committee"). The Committee does not have oversight responsibility for disbursements from the Fund related to Minot Air Force Base Retention efforts, payments for infrastructure to new business locations, or compensation to MADC for economic development work.

Committee members serve three-year terms and may be reappointed for a second term. The current Committee members with their terms of office are:

David Hogue, Chairman (2008)

Richard White, Vice-Chairman (2009)

Dick Bergstad (2007)

John Doubeck (2009)

Mark Hildahl (2007)

Allan Eng (2008)

Terry Zeltinger (2007)

The Committee's role is to evaluate applications submitted by organizations requesting MAGIC Fund revenue.

On June 2, 2003, the Council approved new written policy guidelines for the MAGIC Fund Screening Committee. The adopted guidelines require the chairman of the Committee to submit a written report, with a contemporaneous oral report to the Council. The written report should include:

1. An independent financial accounting for all tax money spent during the reporting period. This portion of the report must include Magic Fund balance information;
2. An assessment of the performance of the current job development and retention contracts, using the "project tracking" guidance in the policy;
3. An assessment of the performance of all contracts for "supporting services";
4. A listing of all applications not approved by the Committee;
5. An assessment of the financial and management health of the Magic Fund, including matters recommended for policy change.

The undersigned, as chairman of the Committee, makes this written report as required by the Magic Fund General Policy Guidelines. I will make the oral report at the convenience of the Council.

I

ACCOUNTING FOR MONEY SPENT DURING THE REPORTING PERIOD; MAGIC FUND BALANCE INFORMATION

The Fund balance as of December 31, 2005 is \$2,420,128 (see attached statement of revenues, expenditures and changes in fund balance). Since the last reporting period, there were two transactions affecting the balance of the Fund. First, in negotiation with MADC and representatives of the Council and the City Manager's office, the annual appropriation to MADC was increased from \$280,000 to \$317,500. The increased amount permits MADC to market the Minot community at trade shows and similar events. Second, the Fund recovered amounts advanced to applicants in previous years when the applicants failed to meet covenants contained in their agreement with the city of Minot. These recoveries include approximately \$28,000 from the Dakota Outerwear project, and \$18,750 from the NW Dairy Project.

II

ASSESSMENT OF PERFORMANCE OF JOB DEVELOPMENT AGREEMENTS

Presently there is an insufficient number of development agreements in place to make systemic assessments. As noted, in two instances in which the

applicants failed to meet covenants, the Fund secured repayment of all or a portion of the disbursed funds.

III

ASSESSMENT OF SUPPORTING SERVICES CONTRACTS

Minot Area Development Corporation "MADC" is a non-profit corporation engaged by the city of Minot to assist with economic development. MADC has four full-time employees. MADC's board of directors is comprised of volunteers who come from the local business community, Minot State University, and other public agencies with a role in economic development.

The Council's continued confidence in MADC is well founded. The informal partnership between the city of Minot and MADC remains successful. MADC works closely with city officials, insuring that potential projects are aggressively pursued. Frequently, new employers have questions about Minot's education system, infrastructure capability, and other public services. MADC's close working relationship with educators, city leaders, and other public agencies allows MADC to quickly respond to potential employers' questions, and address their related concerns.

The Fund also supports base retention efforts through payments to "Task Force 21" for travel, base retention consultants, and related expenses. The Committee exercises no oversight over funds distributed for base retention efforts.

IV

DENIED APPLICATIONS

There were no applications denied in the reported period.

V

**AN ASSESSMENT OF THE FINANCIAL AND MANAGEMENT HEALTH
OF THE MAGIC FUND AND RECOMMENDED POLICY CHANGE**

The financial position of the Magic Fund is described in the City Finance Department's report attached hereto. The Fund's positive balance continues to increase. An increase in sales tax revenue, repayment of the MedVision debt and other outstanding debt, coupled with no disbursements for new applicants, has put the Fund on course to achieve a significant cash balance this year. Presently, the Fund is financially poised to consider a large project.

No changes to the Magic Fund Guidelines are recommended presently.

Thank you for your time and consideration of these matters.

David Hogue
MAGIC Fund Screening Committee Chairman

City of Minot

Finance Department

September 5, 2006

To: Mayor and City Council
From: City of Minot Finance Department
RE: 2005 MAGIC Fund Annual Compliance Report

The section of MAGIC Fund Commitments shows the companies approved for funding during 2000 – 2005, the City in which the individual company is located, and the requirements to be met in order to receive funding. In addition to these companies, commitments were made for:

Churchs Ferry:

Burlington Northern Santa Fe	Grant-Raise Rails	\$15,000	2001
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Harvey:

Earth Harvest Mills, Inc	Loan Guarantee-Denied	\$50,000	2004
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Jamestown:

Commercial Vegetable Growers	Grant-Marketing Director	\$10,000	2000
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Minot:

Small Business Development Center	Grant-Infrastructure	\$10,000	2000
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In 2005, one project, an interest buy down for \$110,000 to Minot Milling was approved. In addition, two projects to restructure loans of \$50,000 to Albertson Consulting and \$32,500 to Deva Lifewear were approved.

Total collections for the Economic Development portion of the one-cent sales tax from 2000 - 2005 were \$29,203,871.

The section on MAGIC Fund Jobs and Wages Comparison reveals jobs committed per the development agreement or contract versus the actual jobs and wages as presented to us by the individual companies. All companies shown in the MAGIC Fund Commitments section for 2000-2005 are shown on this comparison, along with other companies that voluntarily shared their information with us.

The audited 2005 financial statements – including the Balance Sheet, the Statement of Revenues, Expenditures and Changes in Fund Balance, and the Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – were taken from the City of Minot CAFR. Additional financial statements include the outstanding loan activity for 2005.

★ The Magic City ★

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MAGIC Fund Commitments 2000 - 2005

MAGIC Fund Report

Business	Year	Amount	Type of Funds	Contract Requirements	Comments
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Crosby					
Lighted Impressions	2000	\$30,000	Loan guarantee	No Requirements - Remodeling of a former grade school building for the project	
		\$50,000	Stock Purchase	No Requirements - Stock equity investment	
Semolina Specialities/Bushel 42	2001	\$20,000	Interest Buydown	No Requirements - To support an interest buydown on a Pace loan	
		\$10,000	Grant	No Requirements - To cover operating expenses	

Dunseith					
PemStar - Melco Industries	2000	\$10,000	Loan	No Requirements - Financing used for new molds	

Garrison					
Body Menders/Pigeon Products	2000	\$20,000	Grant	No Requirements - To assist in the buy-down, construction money and relocation money	
Lewis & Clark Bean & Pea	2001	\$30,000	Loan	Withdrawn	

Harvey					
Dakota Halal	2000	\$50,000	Preferred Stock	Completion of a local fund drive and the stock be in the name of the City of Minot	
Earth Harvest Mills, Inc	2004	\$50,000	Loan Guarantee	MAGIC Fund Screening Committee denied request	

Minot					
Albertson Consulting	2001	\$50,000	Grant	Loan will convert to a grant if employment levels are met. 2002-15 employees, 20 in 2003, 25 in 2004 and 30 in 2005. The 2002 numbers were met, 2003 were not met & a payment was made to the City. The 2004 employment levels were not met and a request was made by Albertson Consulting to restructure the loan.	
	2001	\$100,000	Convertible Loan		
	2005	\$50,000	Loan	This is a restructure of their remaining debt. Two years at 2% and 5 years at 4%	
Dakota Outerwear	2004	\$31,000	Grant	To help with an interest buy-down to purchase a larger building	
ING	2000	\$625,000	Grant	See Attached	
	2001	\$987,500	Grant	See Attached	
Minot Milling	2005	\$110,000	Grant	To be used to buy-down the interest on a loan to the Bank of ND to assist in the expansion of the elevator for Philadelphia Macaroni.	
		\$30,000	Interest Buydown	See Attached	
WebSmart	2000	\$200,000	Convertible Loan		

MAGIC Fund Commitments 2000 - 2005

MAGIC Fund Report

Business	Year	Amount	Type of Funds	Contract Requirements--Comments
Mohall				
Midwest Telemark	2001	\$15,000	Grant	To assist in the acquisition and remodeling of another building to expand
Parshall				
Northwest Dairy LLP	2001	\$50,000	Loan	The City is to have the security interest (Collateral) in two pieces of equipment. 1984 Payloader #41K11941 1976 IH 1086 #2610177U013373
Rugby				
Rugby JDA (Rugby Manufacturing)	2000	\$44,265 \$60,000	Interest Buydown Loan	No Requirements - to help with an interest buy-down and also for site improvements
Sawyer				
Punkin Patch Pheasant	2000	\$7,500	Grant	This was subject to the other funding sources being in place before the grant is made. To help build a new hatchery facility Verification is by a fax from SBPC
Stanley				
D-R-L Tire Sales	2000	\$3,750	Grant/Interest Buydown	No Requirements - to buy-down the loan
Velva				
Agro-Tech	2001	\$6,800	Grant	No Requirements - Money used to assist in the expansion project
Imscomm Software, Inc	2001	\$10,000	Grant	All other funding needed to be in place before sending check Verified by a letter from the Inscomm President
Velva Drug	2001	\$5,000	Grant	No Requirements - Used for equity in the Company's down payment.
Westhope				
Antler Creek	2000	\$4,000	Grant	No Requirements - Help company build up inventory
Deva Lifewear	2005	\$32,500	Loan	This loan is the result of the restructure of the MAGIC Fund preferred stock ownership in Deva Lifewear. It is a 3% - 84 month loan.

MTI of Bottineau and Kenmare are not on this report. Their commitment was prior to 1999.

Conditions of Agreements

ING- 2001 Grant

The City agrees to pay to the Company—

Payment of \$750,000 paid in three equal annual installments as set forth below:

1. \$250,000 upon completion of erection of steel for expansion
2. \$250,000 on the first anniversary of the initial payment as defined in #1
3. \$250,000 on the second anniversary of the initial payment as defined in #1

A payment of \$187,500 when the following conditions are met:

1. The Company (including the childcare center) employs 750 FTE employees in Minot.
2. Substantial completion and occupancy of the Expansion has occurred. If by the fourth anniversary of this Agreement the Company has not yet met the conditions set forth to receive the bonus, then no part of the bonus payment will be paid to the Company.

A payment of up to \$50,000 to the Company to reimburse the Company for infrastructure extension cost. (Sewer and Water, etc)

ING- 2000 Grant

Conditions of this payment were employments levels over and above the contemplated number of people employed.

WebSmart – 2000 Interest Buydown & Convertible Loan

1. The building must be completed by December 1, 2000.
2. Invest not less than \$1.35 million in building and equipment
3. Employment levels must be maintained for the loan to be converted to a grant as follows:
 - a. 40 employees on or before 8-7-2000; and
 - b. 30 additional employees on or before 8-7-2001; and
 - c. 30 additional employees on or before 8-7-2002; and
 - d. 25 additional employees on or before 8-7-2003; and
 - e. 25 additional employees on or before 8-7-2004.

MAGIC Fund Job and Wage Comparison - 2005

2005 Jobs and Wages		Committed Jobs	Actual Jobs	Wages
City	Company			
Bottineau	MTI (Midwest Telemarketing Inc.)	0	Executive Management Supervisor Line & Staff	0 1 11 42 Total 54 \$880,722
Crosby	Lighted Impressions	Closed		
	Semolina Specialities (Bushel - 42)	Closed		
Dunseith	PemStar (Formerly know as Melco Industries)	Did not respond		
Garrison	Pigeon Products (Body Menders)	Owner runs business		
	Lewis & Clark Bean & Pea Growers	Withdrawn		
Harvey	Dakota Halal Processing	Closed		
	Earth Harvest Mills, Inc	MAGIC Fund Screening Committee Denied Request		
Kenmare	MTI (Midwest Telemarketing Inc.)	0	Executive Management Supervisor Line & Staff	0 2 3 30 Total 35 \$537,306
Minot	Albertson Consulting	15	Executive Management Supervisor Line & Staff	1 0 0 8 Total 9 \$262,182

MAGIC Fund Job and Wage Comparison - 2005

2005 Jobs and Wages					
City	Company	Committed	Actual	Jobs	Wages
		Jobs	Jobs		
Minot	Dakota Outerwear Co	0	Executive	0	\$0
			Management	1	\$134,888
			Supervisor	3	\$108,349
			Line & Staff	13	\$270,850
			Total	17	\$514,087
	ING-2000 Grant	450	Executive	2	\$231,000
	ING-2001 Grant	750	Management	18	\$944,600
			Supervisor	35	\$1,067,000
			Line & Staff	598	\$13,435,000
			Day Care & Contract Employees	27	\$378,691
			Total	680	\$16,056,291
	Minot Milling	0	Executive	1	\$149,508
			Management	2	\$148,231
			Supervisor	3	\$139,299
			Line & Staff	32	\$994,928
			Total	38	\$1,431,966
	WebSmart	Closed			
Mohall					
Mohall	Midwest Telemarketing Inc.	0	Executive	4	\$450,000
			Management	40	\$834,911
			Supervisor	6	\$121,758
			Line & Staff	37	\$782,730
			Total	87	\$2,189,399
Parshall					
Parshall	Northwestern Dairy	0	Executive	1	\$75,000
			Management	2	\$72,500
			Supervisor	2	\$47,285
			Line & Staff	13	\$232,000
			Total	18	\$426,785
Rugby					
Rugby	Rugby JDA	Closed - Sold Building			
Sawyer					
Sawyer	Punkin Patch Pheasant Ranch	0	Executive	0	\$0
			Management	1	\$20,000
			Supervisor	0	\$0
			Line & Staff	6	\$15,000
			Total	7	\$35,000

MAGIC Fund Job and Wage Comparison - 2005

2005 Jobs and Wages					
City	Company	Committed Jobs	Actual Jobs	Wages	
Stanley	DRL Tire Sales/ DBA Kens Tire	Did not respond			
Velva	Agro-Tech, Inc	0	Executive 1 Management 2 Supervisor 0 Line & Staff 5	\$120,000 \$140,000 \$0 \$35,000	
			Total 8	\$295,000	
	Inscomm Software Inc	One Employee			
	Velva Drug	0	Executive 2 Management 0 Supervisor 0 Line & Staff 4	\$143,350 \$0 \$0 \$43,808	
			Total 6	\$187,158	
Westhope	Antler Creek Specialties Inc	Owner runs business			
	Deva Lifewear, Inc	0	Executive 4 Management 0 Supervisor 1 Line & Staff 15	\$120,000 \$0 \$26,000 \$162,835	
			Total 20	\$308,835	
Summary					
In the year 2005, ING and Albertson Consulting had 765 total committed jobs per their contracts or promissory notes. The actual jobs of these 2 companies totaled 689. In addition 10 other companies reported 490 jobs were in place with the following employment and wage totals per category:					
Total Employees	Category	Total Wages			
27	Daycare & Contract	\$378,691			
988	Line & Staff-	\$16,995,804			
61	Supervisor-	\$1,640,990			
86	Management-	\$2,243,021			
17	Executive-	\$1,352,138			
1179		\$22,610,644			

Benefits Summary for MAGIC Fund Annual Compliance Report

2005

Health Insurance-

Of the 13 companies that responded to the survey,

- 2 paid 100% of the premium for health insurance
- 2 paid for 76-100% of the premium for health insurance
- 3 paid for 51-75% of the premium for health insurance
- 1 paid for 26-50% of the premium for health insurance
- 3 paid for 1-25% of the premium for health insurance
- 2 carried no health insurance

Pension Benefits-

Of the 13 companies that responded to the survey,

- 2 pay for 100% of the pension plan
- 0 pay 76 -100% for the pension plan
- 0 pay 26 - 51% for the pension plan
- 6 pay 1 - 25% for the pension plan
- 4 have no pension plan
- 1 participate in a 401K plan

Vacation Benefits-

Of the 13 companies that responded to the survey,

- 8 companies do offer a vacation benefit
- 5 companies do not offer any kind of vacation benefit

Other Tangible Benefits- (Sick Leave, Dental, Vision, Holiday Pay, etc.)

Of the 13 companies that responded to the survey,

- 10 companies do offer other benefits
- 3 companies do not offer other benefits

CITY OF MINOT, NORTH DAKOTA
BALANCE SHEET
SALES TAX ECONOMIC DEVELOPMENT FUND
DECEMBER 31, 2005

	SPECIAL REVENUE FUND	SALES TAX ECONOMIC DEVELOPMENT
ASSETS		
Cash And Cash Equivalents		\$2,319,998
Investments		100,000
Loans Receivable		194,334
Allowance For Loans Receivable		(49,834)
Due From Other Agencies		155,948
TOTAL ASSETS		<u>\$2,720,446</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Advance From Other Funds		\$300,318
TOTAL LIABILITIES		<u>300,318</u>
FUND BALANCE		
Reserved For Economic Development		100,000
Reserved For Loans Receivable		144,500
Undesignated		2,175,628
TOTAL FUND BALANCE		<u>2,420,128</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$2,720,446</u>

**CITY OF MINOT, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
SALES TAX ECONOMIC DEVELOPMENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

	SPECIAL REVENUE FUND
	SALES TAX ECONOMIC DEVELOPMENT
REVENUES	
Sales Tax Collections	\$2,204,283
Interest Income	44,104
Miscellaneous	130,247
TOTAL REVENUES	<u>\$2,378,634</u>
 EXPENDITURES	
Current	
Economic Development	\$551,207
TOTAL EXPENDITURES	<u>551,207</u>
 Revenues Over Expenditures	1,827,427
 OTHER FINANCING SOURCES (USES)	
Transfers IN	376,366
Transfers OUT	(87,234)
TOTAL OTHER FINANCING SOURCES (USES)	<u>289,132</u>
 Change in Fund Balance	2,116,559
 FUND BALANCE, JANUARY 1	<u>303,569</u>
FUND BALANCE, DECEMBER 31	<u>\$2,420,128</u>

CITY OF MINOT, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL
SALES TAX ECONOMIC DEVELOPMENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

**SALES TAX
ECONOMIC DEVELOPMENT**

	ORIGINAL AND FINAL BUDGETED AMOUNTS	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES			
Sales Tax Collections	\$1,921,092	\$2,204,283	\$283,191
Interest Income	-	44,104	44,104
Miscellaneous	-	130,247	130,247
TOTAL REVENUES	1,921,092	2,378,634	457,542
EXPENDITURES			
Current			
Economic Development	2,247,694	551,207	1,696,487
TOTAL EXPENDITURES	2,247,694	551,207	1,696,487
Revenues Over (Under) Expenditures	(326,602)	1,827,427	(2,154,029)
OTHER FINANCING SOURCES (USES)			
Transfers In	376,602	376,366	(236)
Transfers Out	(50,000)	(87,234)	(37,234)
TOTAL OTHER FINANCING SOURCES(USES)	326,602	289,132	(37,470)
Change in Fund Balance	<u><u>\$0</u></u>	<u><u>2,116,559</u></u>	
FUND BALANCE, JANUARY 1		<u><u>303,569</u></u>	
FUND BALANCE, DECEMBER 31		<u><u>\$2,420,128</u></u>	

Magic Fund Activity on Outstanding Loans
2005

	Loan Balance	Payments	2005	Loan Balance
	as of Jan. 1, 2005	2005	Adjustment	as of Dec. 31, 2005
Leeds EDC Trust	\$20,000.00	\$10,000.00	-	\$10,000.00
Noble Games	55,217.85	35,000.00	(20,217.85) **	-
Ray EDC (Med Arts Press)	15,000.00	7,500.00	-	7,500.00
Mother of Eight	2,500.00	-	(1,250.00) *	1,250.00
Melco Industries, Inc.	10,000.00	10,000.00	-	-
Albertson Consulting	50,000.00	166.67	-	49,833.33
Dakota Marketing-Eliance	71,379.85	24,607.86	-	46,771.99
Northwest Dairy	50,000.00	-	-	50,000.00
Deva Lifewear	-	3,521.22	32,500.00 ***	28,978.78
	\$274,097.70	\$90,795.75	\$11,032.15	\$194,334.10

* Met Employment Criteria

**Written off - Business Closed

***New Loan