



MAGIC FUND

Annual Compliance

Report

2006

**Compiled by the City of Minot
Finance Department
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Minot, ND 58701
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TABLE OF CONTENTS

Annual Report of the MAGIC Fund.....	1
City of Minot Letter	12
MAGIC Fund Commitments Report.....	13
Conditions of Agreements.....	14
MAGIC Fund Job and Wage Comparison – 2006.....	15
Benefits Summary for MAGIC Fund Annual Report	18
Balance Sheet – 2006	19
Statement of Revenues, Expenditures, and	
 Changes in Fund Balances – 2006	20
Statement of Revenues, Expenditures, and Changes in	
 Fund Balance, Budget and Actual – 2006.....	21
MAGIC Fund Activity on Outstanding Loans – 2006	22

Annual Report of

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

to

City Council of Minot

Date: July 16, 2007

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 exercise 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. All terms expire at the end of June. 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 (2010)

Allan Engh (2008)

Terry Zeltinger (2010)

Historically, the Committee's role was to evaluate applications submitted by organizations requesting MAGIC Fund support. 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 that were 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 request and convenience of the Council, but note the requirement in the guidelines requiring contemporaneous oral report with the written report.

I.

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

The Fund balance as of December 31, 2006 is \$4,662,000 (see attached statement of revenues, expenditures and changes in fund balance). The increasing balance of the Fund continues for two reasons. First, the Fund benefits from steady increases in City sales tax revenue. Those increases were recently described in the City's annual report. The increases in City sales tax collections are as follows:

2003	\$ 9.54 million
2004	\$10.13 million
2005	\$11.02 million
2006	\$11.92 million

The city of Minot is experiencing similar growth for 2007. For the period from January to June 2007, sales tax revenue is up 10.69% from the previous year. The second reason for increasing Fund balance relates to expenditures. Simply stated, the Fund continues to spend less than it earns and accumulates. Fund revenue for 2006 was \$2,384,000, or approximately \$200,000 per month.

Subtracting fixed expenses for MADC and Task Force 21 leaves a balance of approximately \$2 million per year for economic development projects.

One might conclude that a substantial cash balance, now on the order of \$4 million, is a favorable condition, particularly for a public fund. But this Fund is a unique fund. The tax that supports the Fund was established and later extended by the residents of Minot so that tax revenues could be leveraged to foster increased economic activity through the creation of new jobs. To the extent that the Fund accumulates excessive revenues, it fails in its fundamental objective to leverage.

Since the last reporting period, there has been three major fund expenditures/commitments in three separate projects. First, in cooperation with MADC, the Fund committed to spending \$1.2 million for the development of an intermodal transportation facility in northeast Minot. Estimated construction costs of this project are \$4.1 million. With financial support from federal and state economic development agencies, and the support from the Fund, MADC expects to construct an intermodal facility that is the principal asset of a planned agri-business park in northeast Minot. The intermodal facility is currently under construction.

The second major project in this reporting period is the first occupant of the agri-business park, MG Grains, LLC ("MG Grains"). MG Grains is constructing grain handling, processing, and storage facilities to take advantage of the intermodal facility. Although MG Grains contract has not been finalized, I describe the transaction herein because of its close relationship to the Fund grant for the intermodal facility.

Both the \$1.2 million intermodal grant to MADC and the \$550,000 grant to MG Grains represent significant investments in economic development. These two projects are interrelated: MG Grain cannot be successful without successful construction of the intermodal facility, while the intermodal facility needs customers like MG Grains to use its facility.

In both projects, the financial support the Fund provides has been narrowly funneled to infrastructure improvements. Rather than provide unrestricted cash grants, the Fund has supported both projects through payments directly related to building permanent infrastructure, including water, roads, and other land fixtures.

Channeling Fund grants to permanent improvements rather than unrestricted cash grants represents a calculated, risk reduction strategy. The strategy is born of historical experience and the Fund guidelines that inform the Committee's deliberative process. With the support of the Council and MADC, the Fund, when possible, will continue to support infrastructure grants and loans.

Under these types of grants, in the event of a project failure, Fund assets invested in permanent infrastructure stay in place, enhancing potential for future development and maintaining value to the real property tax base.

The third major project during this reporting year relates to a \$400,000 cash grant/forgivable loan to Info-Tech of Minot ("Info-Tech"). Info-Tech describes itself as a software house and systems integration company. The company principal is Mr. Matti Kon.

Info-Tech is a naval contractor supporting specific naval software development. Without continuing Congressional appropriation, or with the loss of US Naval support, Info-Tech could experience the loss of its major customer.

The Fund's investment in Info-Tech represents a greater, but not unreasonable risk compared to the two other projects I have described. Success of Info-Tech in the short term requires Congressional support for specific appropriation to support a naval software development project. The risk then relates to governmental action well beyond the control of Info-Tech, the City, and MADC. To be sure, the project has the staunch support of US Senator Byron Dorgan, an influential member of the Senate Majority.

Notwithstanding this specific risk, there is growing evidence Info-Tech is diversifying its customer base and otherwise reducing the risk of project failure. Last month Info-Tech announced it will perform services in Minot for a New York based investment advisory firm. Mr. Kon has reported to the undersigned his overwhelming satisfaction with Minot employees hired to date. Thus, despite the risks with the naval projects, I conclude there is reasonable basis for optimism with Info-Tech.

II.

ASSESSMENT OF PERFORMANCE OF JOB DEVELOPMENT AGREEMENTS.

The Info-Tech project represents the only project in which the City can assess promises to employ. The Intermodal project and the MG Grain project remain under construction at this writing.

All new Info-Tech employees participated in an anonymous survey. The Committee created the survey to learn more demographic information about Fund recipient employees. I have reviewed the surveys completed by the new employees of Info-Tech. Overall, they are extremely pleased with the employment opportunities Info-Tech presents. After one year, the Committee will provide the Council with Info-Tech's employment data.

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 Fund supports MADC through direct payments. In 2006, the Fund provided MADC approximately \$310,000.

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. For the current year, \$100,000 of Fund assets is budgeted for Task Force 21 expenses. Last year the Task Force spent approximately half of its budgeted amount. The Committee exercises no oversight over funds distributed for base retention efforts.

IV.

DENIED APPLICATIONS.

There were no denied formal applications, although several prospective applicants were discouraged from applying because the prospective application did not meet specified criteria.

V.

AN ASSESSMENT OF ECONOMIC DEVELOPMENT EFFORTS, 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 and Section I of this report. The Fund's positive balance, as I earlier referenced, continues to increase. Increase in sales tax revenue, coupled with relatively small 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 on the order of ING or MLT.

With respect to recommended changes policy, direction and the Magic Fund guidelines, I offer the following suggestions:

A. PROVIDE FORMAL OVERSIGHT OF THE CONSTRUCTION AND OPERATION OF THE INTERMODAL FACILITY.

The present guidelines directs the Chairman of the Committee to report to the Council annually on the performance of the contracts for all supporting services paid for by the 40-percent "first penny" tax revenue. For the current year, \$100,000 is budgeted in the Fund for Base Retention efforts and \$305,000 is budgeted for direct payment to MADC.

Further, and perhaps more importantly, the City and MADC have entered into a \$1.2 million dollar partnership for the development of the intermodal facility with MADC. The City should establish formal oversight over the construction and management of the intermodal facility. The Committee does not monitor MADC's performance under its employment contract, its intermodal construction contract, nor does the Committee track the invaluable work of Task Force 21. Oversight of these endeavors should be formal and public.

So, I reiterate advice from a year ago: the Council should designate a responsible entity, perhaps an existing Council committee to monitor performance under these contracts, because together they represent the largest expenditure of Magic Fund Revenue over the past five years.

B. ACQUISITION OF COMMERCIAL SPACE

Over the years, the City has conducted several strategic assessments about the direction of economic development. "Value-added" agricultural projects and "technology" laden jobs are currently favored by economic development leaders in our region and most other parts of the Plains states.

Minot leadership has made the effort to invest in and acquire the agri-business park to the northeast. That investment will lead to additional projects because prospective applicants can readily see the City's commitment. Further, prospective applicants can reduce start-up time and costs because of the presence of existing facilities.

The City needs to make a similar investment in commercial real estate that can serve as a location for multiple commercial employers. Currently that is the single greatest hole in the City's strategic approach to economic development.

The difficulty in finding a suitable location within Minot for Info-Tech, Visited, and other prospective applicants should spur the Council to act now. Commercial land, like the Fund itself, is a valuable tool for securing new employers to Minot.

Thank you for your time and consideration of these matters.

David Hogue
MAGIC Fund Screening Committee Chairman

City of Minot

Finance Department

June 15, 2007

To: Mayor and City Council
From: City of Minot Finance Department
RE: 2006 MAGIC Fund Annual Compliance Report

The 2006 MAGIC Fund Annual Compliance Report is divided into sections. The section on the MAGIC Fund Commitments shows the companies approved for funding during 2002 – 2006, the City in which the individual company is located, and the requirements to be met in order to receive funding. As of December 31, 2006, the MAGIC Fund had the following outstanding commitments:

Minot:

Souris Basin Planning Council Relending	Grant	\$16,694
ING Workforce Expansion Project	Grant	\$75,000
MADC Port of ND Intermodal Facility	Grant	\$1,200,000

Total collections for the Economic Development portion of the one-cent sales tax from 2002 - 2006 were \$10,451,916.

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 2002-2006 are shown on this comparison, along with other companies that voluntarily shared their information with us.

The audited 2006 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 2006.

MAGIC Fund Commitments 2002 - 2006

MAGIC Fund Report

Business	Year	Amount	Type of Funds	Outstanding	Contract Requirements & Comments
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Harvey

Earth Harvest Mills, Inc	2004	\$50,000	Loan Guarantee	-	MAGIC Fund Screening Committee denied request
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Leeds

Golden Plains Frozen Foods	2001	\$30,000	Loan	\$10,300	This loan was rewritten from a loan for Farmers Choice Pasta
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Minot

Artspace	2005	\$62,500	Loan	\$12,500	Funding to assist in future Artspace project
Albertson Consulting	2005	\$50,000	Loan	\$47,812	This is a restructure of their remaining debt. Two years at 2% and 5 years at 4%
Dakotah Marketing & Research	1997	\$118,901	Loan	\$20,646	United Community Bank (UCB) made a loan to Dakotah Marketing & Research Feb. 1997; City guaranteed it. Farstad signed an indemnity agreement with the City. Dacotah then defaulted on the loan. The City paid UCB \$118,901 in May 2002.
Dakota Outerwear	2004	\$31,000	Grant	-	To help with an interest buy-down to purchase a larger building
ING	2005	\$75,000	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.
MADC	2006	\$1,200,000	Grant	-	Port of ND Intermodal Facility
SBPC Relending	1999	\$75,000	Grant	-	This is a 13% matching Grant to an approved loan. Available until the \$75,000 is gone

Westhope

Deva Lifewear	2005	\$32,500	Loan	\$25,002	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.
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Conditions of Agreements

ING - 2005 Workforce Expansion Grant

A grant of \$75,000 will be issued when the following conditions are met:

1. \$25,000 when full-time equivalent, non-seasonal employee count is at 775
2. \$25,000 when full-time equivalent, non-seasonal employee count is at 800
3. \$25,000 when full-time equivalent, non-seasonal employee count is at 825

Available through June 2007.

MAGIC Fund Job and Wage Comparison - 2006

2006 Jobs and Wages					
City	Company	Committed Jobs		Actual Jobs	Wages
Bottineau					
	MTI	-	Executive	0	\$0
	(Midwest Telemarketing Inc.)		Management	1	32,673
			Supervisor	10	218,701
			Line & Staff	33	556,363
			Total	44	\$807,737
Crosby					
	Semolina Specialties	Closed			
	(Bushel - 42)				
Garrison					
	Lewis & Clark Bean & Pea Growers	Withdrawn			
Harvey					
	Earth Harvest Mills, Inc	MAGIC Fund Screening Committee Denied Request			
Kenmare					
	MTI	-	Executive	0	\$0
	(Midwest Telemarketing Inc.)		Management	1	31,797
			Supervisor	3	70,092
			Line & Staff	26	317,763
			Total	30	\$419,652
Minot					
	Albertson Consulting	-	Executive	1	\$63,280
			Management	0	0
			Supervisor	0	0
			Line & Staff	8	198,902
			Total	9	\$262,182
	Dakota Outerwear Co	-	Executive	0	\$0
			Management	1	134,888
			Supervisor	3	108,349
			Line & Staff	13	270,850
			Total	17	\$514,087

MAGIC Fund Job and Wage Comparison - 2006

2006 Jobs and Wages					
City	Company	Committed Jobs		Actual Jobs	Wages
Minot					
	ING-2001 Grant	750	Executive	2	\$240,200
			Management	21	1,141,300
			Supervisor	31	980,814
			Line & Staff	639	14,957,322
		Day Care & Contract Employees		26	313,445
		Total		719	\$17,633,081
	Minot Milling	-	Executive	1	\$151,588
			Management	2	151,031
			Supervisor	3	145,837
			Line & Staff	28	948,478
			Total	34	\$1,396,934
Mohall					
	MTI	-	Executive	3	\$415,394
	(Midwest Telemarketing Inc.)		Management	9	416,330
			Supervisor	28	800,577
			Line & Staff	61	979,985
			Total	101	\$2,612,286
Parshall					
	Northwestern Dairy	Closed			
Velva					
	Agro-Tech, Inc	-	Executive	2	\$155,000
			Management	2	165,000
			Supervisor	0	0
			Line & Staff	6	93,064
			Total	10	\$413,064
	Inscomm Software Inc	-	Executive	2	\$56,620
			Management	0	0
			Supervisor	0	0
			Line & Staff	0	0
			Total	2	\$56,620
	Velva Drug	-	Executive	2	\$144,999
			Management	0	0
			Supervisor	0	0
			Line & Staff	4	42,986
			Total	6	\$187,985

MAGIC Fund Job and Wage Comparison - 2006

2006 Jobs and Wages					
City	Company	Committed Jobs		Actual Jobs	Wages
Westhope					
	Deva Lifewear, Inc	-	Executive	4	\$128,065
			Management	0	0
			Supervisor	1	28,321
			Line & Staff	14	150,990
			Total	19	\$307,376
Summary					
In the year 2006, ING had 750 total committed jobs per their contracts or promissory notes.					
The actual jobs of this company totaled 719. In addition 12 other companies reported 232 jobs were in place with the following employment and wage totals per category:					
Total					
Employees	Category	Total Wages			
26	Daycare & Contract	\$313,445			
832	Line & Staff	18,516,703			
79	Supervisor	2,352,691			
37	Management	2,073,019			
17	Executive	1,355,146			
991		\$24,611,004			

2006 Benefits Summary for MAGIC Fund Annual Compliance Report

Health Insurance

Of the 9 companies that responded to the survey:

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

Pension Benefits

Of the 9 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
- 4 pay 1 - 25% for the pension plan
- 2 have no pension plan
- 1 participate in a 401K plan

Vacation Benefits

Of the 9 companies that responded to the survey:

- 6 companies do offer a vacation benefit
- 3 companies do not offer any vacation benefit

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

Of the 9 companies that responded to the survey:

- 4 companies do offer other benefits
- 5 companies do not offer other benefits

City of Minot, North Dakota
Balance Sheet
Sales Tax Economic Development Fund
December 31, 2006
With Comparative Totals for December 31, 2005

ASSETS	March 31, 2006	March 31, 2005
Cash and cash equivalents	\$4,288,494	\$2,319,998
Investments	100,000	100,000
Loans receivable	115,961	194,334
Allowance for loans receivable	(23,192)	(49,834)
Due from other agencies	181,224	155,948
Total assets	<u>\$4,662,487</u>	<u>\$2,720,446</u>
LIABILITIES		
Liabilities		
Advance from other funds	\$0	\$300,318
Total liabilities	<u>-</u>	<u>300,318</u>
FUND BALANCE		
Reserved for economic development	100,000	100,000
Reserved for loans receivable	92,769	144,500
Unreserved		
Undesignated	4,469,718	2,175,628
Total fund balance	<u>4,662,487</u>	<u>2,420,128</u>
Total liabilities and fund balance	<u>\$4,662,487</u>	<u>\$2,720,446</u>

City of Minot, North Dakota
Statement of Revenues, Expenditures and Changes in Fund Balance
Sales Tax Economic Development Fund
December 31, 2006
With Comparative Totals for December 31, 2005

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
REVENUES		
Sales tax collections	\$2,384,118	\$2,204,283
Interest income	68,990	44,104
Miscellaneous	37,357	130,247
Total revenues	<u>\$2,490,465</u>	<u>\$2,378,634</u>
EXPENDITURES		
Current		
Economic development	<u>\$408,008</u>	<u>\$551,207</u>
Excess (deficiency) of revenues over (under) expenditures	2,082,457	1,827,427
OTHER FINANCING SOURCES (USES)		
Transfers in	275,071	376,366
Transfers out	<u>(115,169)</u>	<u>(87,234)</u>
Total other financing sources (uses)	<u>159,902</u>	<u>289,132</u>
Net change in fund balance	2,242,359	2,116,559
Fund balance, January 1	<u>2,420,128</u>	<u>303,569</u>
Fund balance, December 31	<u>\$4,662,487</u>	<u>\$2,420,128</u>

City of Minot, North Dakota
Statement of Revenues, Expenditures and Changes in Fund, Budget and Actual
Sales Tax Economic Development Fund
For the Fiscal Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	December 31, 2006				December 31, 2005		
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES							
Sales tax collections	\$2,000,000	\$2,000,000	\$2,384,118	\$384,118	\$1,921,092	\$2,204,283	\$283,191
Interest income	-	-	68,990	68,990	-	44,104	44,104
Miscellaneous	-	-	37,357	37,357	-	130,247	130,247
Total revenues	2,000,000	2,000,000	2,490,465	490,465	1,921,092	2,378,634	457,542
EXPENDITURES							
Current							
Economic development	2,215,578	2,240,578	408,008	1,832,570	2,247,694	551,207	1,696,487
Excess (deficiency) of revenues over (under) expenditures	(215,578)	(240,578)	2,082,457	(1,342,105)	(326,602)	1,827,427	2,154,029
OTHER FINANCING SOURCES (USES)							
Transfers in	265,578	265,578	275,071	9,493	376,602	376,366	(236)
Transfers out	(50,000)	(50,000)	(115,169)	(65,169)	(50,000)	(87,234)	(37,234)
Total other financing sources (uses)	215,578	215,578	159,902	(55,676)	326,602	289,132	(37,470)
Net change in fund balance	\$0	(\$25,000)	2,242,359	(\$1,397,781)	\$0	2,116,559	\$2,116,559
Fund balance, January 1			2,420,128			303,569	
Fund balance, December 31			<u>\$4,662,487</u>			<u>\$2,420,128</u>	

City of Minot, North Dakota
Magic Fund Activity on Outstanding Loans
December 31, 2006
With Comparative Totals to December 31, 2005

	January 1, 2006	Payments	Adjustment	December 31, 2006	December 31, 2005
Leeds EDC Trust	\$10,000	\$0	\$0	\$10,000	\$10,000
Ray EDC (Med Arts Press)	7,500	7,500	-	-	7,500
Mother of Eight	1,250	-	(1,250) *	-	1,250
Albertson Consulting	49,833	2,022	-	47,812	49,833
Dakota Marketing-Eliance	46,772	26,126	-	20,646	46,772
Northwest Dairy	50,000	30,250	(19,750) **	-	50,000
Deva Lifewear	28,979	3,976	-	25,002	28,979
Art Space	-	50,000	62,500 ***	12,500	-
	<u>\$194,334</u>	<u>\$69,874</u>	<u>\$41,500</u>	<u>\$115,960</u>	<u>\$194,334</u>

* Met employment criteria

** Business closed

*** New loan