



MAGIC FUND
Annual Compliance
Report
2008

**Compiled by the City of Minot
Finance Department
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MAGIC Fund Screening Committee

Annual Compliance Report

2008

Table of Contents

Report from the Chair	
I. Preface.....	2
II. MAGIC FUND BALANCE and FUNDS SPENT	2
III. PERFORMANCE of JOB DEVELOPMENT AGREEMENTS	4
IV. SUPPORTING SERVICES CONTRACTS	4
V. DENIED APPLICATIONS	5
VI. FINANCIAL and MANAGEMENT HEALTH of the FUND	5
MAGIC Fund Steering Committee	6
MAGIC Fund Approved 2008 Projects	6
Unfunded Commitments as of December 31, 2008	8

I. Preface

Following last year's report presentation to the City Council, Alderman Chuck Barney suggested the guidelines, under which the screening committee operates, should be reviewed to ensure their continued functionality. That review was completed in December 2008, by a committee consisting of the following members:

Chuck Barney	Alderman, City of Minot
Cindy Hemphill	Finance Director, City of Minot
Darwin Langseth	Chair, Minor Area Development Corporation
Don Longmuir	Souris Basis Planning Council
Richard White	Chair, MAGIC Fund Screening Committee

The results of the review were gratifying in that the recommended changes to the guidelines and procedures were mainly to clarify several points but did not result in substantive changes. The review, basically, supported and affirmed the efforts of the initial group that formulated the guidelines. There was, however, one recommended change that affected this annual report. In the past, this report was typically presented in May, at the earliest. The timing was in deference to preparation of the City's audited financial reports along with other detailed reports related to the monitoring of projects. The committee believed, and agreed, the section of the report related to activities of the Screening Committee itself could be presented in a separate report, and thereby, completed much earlier than in the past. The remaining sections of the report would be presented using the later schedule. Thus, the full report will be in two parts. This is the first part.

II. MAGIC FUND BALANCE and FUNDS SPENT

The MAGIC Fund balance at December 31, 2008 was approximately \$4.16 million, somewhat more than the previous year-end balance of \$3.9 million. Total receipts during the year were \$4.0 million. This was another year of strong economic activity in the city and surrounding areas. Projects recommended for support this year totaled \$5.76 million with \$2.95 million in actual disbursements for economic development projects. Commitments outstanding at the end of the year were \$2.81 million. Since its inception in 1990, the fund has disbursed just over \$30 million to more than 200 entities.

The screening committee recommended the following projects to the City Council during the year:

Project	\$ Amount	Purpose
Quilted Bean	3,760	Interest Buy-down
Minot Sash & Door	30,633	Interest Buy-down
Dr Colleen Hoffer, DDS	4,500	Interest Buy-down
MADC Energy Park Phase I*	1,100,000	Grant
Pure Energy	200,000	Grant
Pure Energy	250,000	Forgivable Loan
Pure Energy	150,000	Purchase Lots
MSU Bottineau	50,000	Grant
Fiberglass Specialties	90,000	Interest Buy-down
17 Communities	43,077	Marketing Match
MADC Industrial Land*	410,000	Kemper Land purchase
MADC	96,240	Workforce Development
MADC Ag Processing Complex	800,000	Land purchase
D & M Family Market	10,000	Interest Buy-down
MADC Energy Park Phase II*	1,696,000	Phase II Energy Park
MADC Energy Park Phase I*	321,000	Additional costs
City of Minot/Ward County	500,000	55th Street Overpass
Total	\$5,755,209	

Projects noted above (*) will return net proceeds from lot sales to the fund. Approximately \$727k was returned to the fund last year by sales in the Energy Park Phase I. The last two projects listed were approved by the MAGIC Fund committee in December; however, they were not approved by City Council until January. Therefore, they are not reflected on the year-end financials as commitments in 2008. In addition, the MAGIC Fund committee approved the workforce development grant for \$96,240; however, the City Council approved \$48,120.

It is important to recognize that more than 80% (\$4.8 million) of these funds were approved for land, related infrastructure or physical facilities, thereby representing real investments for the future. At the same time, two-thirds of the project funds (\$3.8 million) are related to energy endeavors - especially oil. The initial success of the Great Plains Energy Park Phase I led to the immediate follow-on for Phase II. However, the crash of oil prices from \$150 to \$35 per barrel has rendered many of these projects unprofitable in the current market. We expect these projects will be revisited as performance objectives could be difficult to reach during the periods anticipated.

III. PERFORMANCE of JOB DEVELOPMENT AGREEMENTS

InfoTech – Minot Technology Center had some difficulties meeting their target employment levels by the dates prescribed in the agreement. The Finance Department staff and legal counsel reviewed the documentation to make a conclusive determination. It appeared the required employment levels had not been achieved in the time specified. At that point, InfoTech was obligated to pay the first installment (\$66,666) of the forgivable loan. However, InfoTech requested forbearance by changing performance dates because the target, requiring one additional employee, was reached one month later than specified. They have had difficulty in finding qualified people; that factor was the primary cause for delay in reaching the target employment level.

The MG Grain facility development came to a halt in 2007 with the death of its owner, Mr. Ghattas. C & F Foods, Inc. purchased MG Grain in the fall of 2008. As part of the purchase, C & F repaid a \$250 thousand forgivable loan from the Fund.

As recommended last year, the City has engaged Brady Martz and Associates, Public Accountants and Consultants, to independently verify the performance criteria required of Fund participants. The results are included in this report.

IV. SUPPORTING SERVICES CONTRACTS

The Minot Area Development Corporation (MADC) is a non-profit organization engaged by the City of Minot to assist with economic development. Its board of directors consists of volunteers from the local business community, City of Minot representatives, Ward County representatives, Minot State University, Minot Air Force Base, and other public agencies with an interest in economic development. The MAGIC Fund supports MADC through direct payments that were \$345 thousand in 2008 – up from \$305 thousand in 2007. MADC is also supported by its

members with membership fees totaling around \$100 thousand.

MADC's successful job creation efforts, accompanied by positive economic and geological factors, have increased the inventory of available jobs in our area as well as much of the state. Many of these jobs have been difficult to fill. MADC, along with the Minot Area Chamber of Commerce and other groups, have been focusing on ways to alleviate a shortage of able and qualified employees. MADC formulated a plan the Screening Committee recommended for funding as listed in the projects above. (The actual award was half the amount requested due to the timing of the approval.) MADC's plan was to focus on areas of the country that were hit hard by layoffs, especially in the automobile industry. (That was before most areas of the country were suffering job losses.) It is too early in the cycle to assess the impact of these efforts. The Committee anticipates a report from MADC in the near future detailing their efforts. At the same time, changes in economic conditions have mitigated the urgency for action; however, I believe it is fair to caution; the issue has not, and will not, go away, for economic activity and the price of oil will increase in the future. The unknown is when. Efforts need to continue to recruit employees to the area albeit at a reduced pace.

Following last year's recommendation, MADC began presenting their financial reports to the Screening Committee, and that practice will continue.

V. DENIED APPLICATIONS

No applications, other than marketing grants, were denied in 2008.

VI. FINANCIAL and MANAGEMENT HEALTH of the FUND

We are fortunate to have a reasonable amount of cash in the fund for future endeavors. We have experienced a strong growing economy in the area to support replenishing the MAGIC Fund resources. That support probably will not continue at the recent high levels due to slowing economic activity. The economic stimulus package, proposed by the new administration, will take time to have a meaningful impact upon the national and regional economies. We are hopeful the last project recommended by the committee for the 55th Street overpass will be a beneficiary of the stimulus package.

In our report last year, we cautioned about a sense of urgency to get things done to effect growth. The dreadful economy we are experiencing does give us an opportunity to take a breath and reassess our future. It also allows us, as a community and region in North Dakota, to plan more carefully and thoughtfully.

On behalf of the MAGIC Fund Screening Committee,

Richard F. White, Chairman

MAGIC Fund Screening Committee Members as of December 31, 2008

Professional	Employment	Original Appointment	Expiration of Term
Jay Hight	Hight Construction	September 1, 2008	June 30, 2011
Labor			
Jeff Mowan	SRT	August 1, 2007	June 30, 2010
John Doubek	Burdick Job Corps Center	July 7, 2003	June 30, 2009
Business			
Dr. Mark Hildahl	Souris Valley Dental Group	July 6, 2004	June 30, 2010
Trade Area			
Roger Ness	Kenmare, ND Mayor	September 1, 2008	June 30, 2011
Finance			
Terry Zeltinger	United Community Bank	July 6, 2004	June 30, 2010
Dick White	IRET	July 7, 2003	June 30, 2009

MAGIC Fund Approved 2008 Projects

The following is a paragraph on each of the projects receiving a grant or loan from the MAGIC Fund during 2008. It includes any restrictions or employment requirements along with the results of any compliance audit completed by Brady Martz.

The Quilted Bean, located in Velva, North Dakota, was approved for a \$3,760 Bank of North Dakota Flex PACE interest buy down to help establish a new quilt fabric shop, coffee shop and sandwich/soup restaurant on Main Street in Velva. The amount was matched dollar for dollar by the Velva Community Development Corporation.

Minot Sash and Door, Inc. was approved for up to a \$65,800 Bank of North Dakota Flex PACE interest buy down to begin rebuilding their infrastructure to retain the business in Minot after a fire destroyed the former building. A check was issued for \$30,633.

The City Council approved a \$4,500 PACE interest buydown for Dr. Colleen Hofer, DDS for the purchase of a dental practice, equipment, and supplies as part of the start-up limited liability corporation in Velva, North Dakota.

The City Council approved the request from Minot Area Development Corporation (MADC) for a \$1.1 million grant to fund the expansion of the public infrastructure including build-out of

water, sewer, curb and gutter, pavement and lighting for Phase I of the Energy Park. The grant has one condition that the proceeds from the sale of the lots come back to the MAGIC Fund after MADC recovers their expenses associated with the purchase of the land.

The Pure Energy Services application for \$600,000 (\$200,000 cash grant, \$250,000 forgivable loan and \$150,000 to purchase the lots) was approved subject to the development agreement listing the City as having a lien position on the land in case the company would leave. The \$200,000 cash grant was made available upon the City of Minot's receipt of a short-term facility lease with a term of no less than 6 months, and a signed contract for the construction of their facility on lots 7 and 8 in Minot's Energy Park First Addition. The \$250,000 forgivable loan was made available upon verification of 40 positions operating out of Minot. Brady Martz evaluated compliance with MAGIC Fund employment conditions as described in the Development Agreement and found them in full compliance.

The MSU-Bottineau Entrepreneurial Center for Horticulture was approved for a \$50,000 grant for the commercialization of the vegetable industry with the development agreement provision stating if the \$1.5 million EDA and \$500,000 HUD monies are not approved, and the MAGIC Fund monies have not been expended, the \$50,000 grant money from the MAGIC Fund be returned. MSU-Bottineau received the EDA and HUD funds and the grant was issued for the project.

Fiberglass Specialties was approved for a \$90,000 PACE interest buy down for the expansion of their current manufacturing facility. They manufacture fiberglass switch heater covers for railroads and salt-water tanks for the oil industry. A check was issued for \$89,217.

The City Council approved a request for \$410,000 to MADC for the purchase of lots in the Kemper Addition to be made available for commercial and industrial development. Any proceeds from the sale of these properties would replenish the MAGIC Fund account less MADC costs.

City Council approved a MADC request of \$48,120 for the development and implementation of a workforce development program aimed at recruiting workforce to Minot in an effort to fill the number of available jobs in the area.

City Council approved MADC's request for \$800,000 for the purchase of 320 acres of property located east of 42nd Street and north of Ward County Road 12. The property is included in the Minot Value-Added Agricultural Processing Complex.

The City of Drake/D & M Family Market Grocery Store was approved for a \$10,000 grant to be used for the addition of a smokehouse to the new grocery store. An April 4, 2008 fire on Main Street in Drake, ND caused two buildings to burn and partially destroyed the town's only grocery store causing it to close.

Great Plains Energy Park - MADC was approved for a \$1,696,000 grant for the expansion of public infrastructure (water, sewer, curb and gutter, pavement and lighting) extending from the end of Phase I of the Energy Park east to 72nd Street (Phase II) with proceeds from the sale of the parcels coming back to the MAGIC Fund less MADC costs.

MADC was approved for up to \$321,000 to pay for additional costs in association with the build out of public infrastructure in the Minot Energy Park Phase I Project. Any funds from the sale of the property will be refunded to the MAGIC Fund after MADC costs are deducted, for Phase I and II.

The City of Minot and Ward County received approval for a \$500,000 MAGIC Fund grant for participation in project development, design engineering, and right of way acquisition for the proposed 55th Street East Grade Separation.

Brady Martz evaluated compliance with MAGIC Fund employment conditions as described in the InfoTech Development Agreement and found them in default, as they were short one employee as of March 1, 2008. As of April 1, 2008, they were in compliance. The MAGIC fund committee agreed to revise the Development Agreement to prevent the default of InfoTech.

Unpaid Commitments as of December 31, 2008

MADC Port of ND Intermodal Facility (Approved 02-07-07)	\$ 1,234
MADC Port of ND Intermodal Facility (Approved 09-04-07)	306,021
Rural Marketing Match (Approved 07-07-08)	2,500
Workforce Development Program (Approved 07-07-08)	38,114
Great Plains Energy Park Phase II (Approved 10-6-08)	<u>1,650,100</u>
	<u>\$ 1,997,969</u>

City of Minot, North Dakota
Balance Sheet
Sales Tax Economic Development Fund
December 31, 2008
With Comparative Totals for December 31, 2007
unaudited

	Dec 31, 2008	Dec 31, 2007
Assets		
Cash and investments	\$2,161,073	\$3,633,695
Restricted cash and investments	1,997,969	336,385
Investments	53,304	57,875
Loans receivable		
Albertson Consulting, Inc.	31,386	38,143
Deva Lifewear	15,939	20,539
Info Tech - Minot	200,000	200,000
MG Grain	-	250,000
Pure Energy Services	250,000	-
Allowance for loans receivable	(99,465)	(101,736)
Due from other agencies	325,945	259,606
Total assets	<u><u>\$4,936,151</u></u>	<u><u>\$4,694,507</u></u>
Liabilities		
Liabilities		
Accounts payable	\$ 65,474	\$ -
Due to other agencies	-	105,380
Total liabilities	<u><u>65,474</u></u>	<u><u>105,380</u></u>
Fund Balance		
Reserved for economic development	1,997,969	336,385
Reserved for loans receivable	(99,465)	406,946
Unreserved		
Undesignated	2,972,173	3,845,796
Total fund balance	<u><u>4,870,677</u></u>	<u><u>4,589,127</u></u>
Total liabilities and fund balance	<u><u>\$4,936,151</u></u>	<u><u>\$4,694,507</u></u>

City of Minot, North Dakota
Statement of Revenues, Expenditures and Changes in Fund Balance
Sales Tax Economic Development Fund
December 31, 2008
With Comparative Totals for December 31, 2007
unaudited

	<u>Dec 31, 2008</u>	<u>Dec 31, 2007</u>
Revenues		
Sales tax collections	\$2,914,868	\$2,648,554
Interest income	126,370	221,360
Miscellaneous	<u>997,834</u>	<u>42,531</u>
Total revenues	<u>4,039,072</u>	<u>2,912,445</u>
Expenditures		
Current		
Economic development	<u>3,707,522</u>	<u>2,717,155</u>
Excess (deficiency) of revenues over (under) expenditures	331,550	195,290
Other Financing Sources (Uses)		
Transfers out	<u>(50,000)</u>	<u>(268,650)</u>
Net change in fund balance	281,550	(73,360)
Fund balance, January 1	<u>4,589,127</u>	<u>4,662,487</u>
Fund balance, December 31	<u>\$4,870,677</u>	<u>\$4,589,127</u>