

Office of the State Auditor
Performance Audit Division



State of Mississippi

**From the Office of State Auditor
Phil Bryant**

**Formulating An Economic Development
Bond Monitoring Program**

Report #81
February 10, 2004

www.osa.state.ms.us



February 10, 2004

Dear Legislator:

The following report details the formation of the Economic Development Bond Monitoring Program at the Office of the State Auditor. This program began in January, 2001 at the request of Representative Billy McCoy, now speaker of the MS House of Representatives. Speaker McCoy's intent was to have the Performance Division of the Office of the State Auditor monitor expenses and internal controls associated with the Nissan Project. The monitoring program was expanded at the request of Speaker McCoy to include all bond projects classified under the category of Economic Development.

I believe the Auditor's Bond Monitoring Program is essential to the success of these bond projects. It provides a level of accountability never before required of such critical investments. The taxpayers and leaders of both the executive and legislative branches of state government will be well served by the continuation of these efforts.

This report includes a project profile outlining each of the five projects currently being monitored by the Office of the State Auditor. Together these projects are expected to create over 10,000 jobs and require more than \$500 million in public debt financing. We look forward to our future monitoring efforts and to answering any questions you may have regarding this process or our findings.

With best regards, I remain,

Sincerely,

Phil Bryant
State Auditor

PB/dm
enclosure



Formulating An Economic Development Bond Monitoring Program

Report Summary

On January 5, 2001 Rep. Billy McCoy, acting in his capacity as the chairman of the Ways and Means Committee, asked the Office of the State Auditor to begin monitoring expenses and internal controls associated with the Nissan project. In 2003, responding to the State Auditor's expanding oversight activities, the Legislature specifically authorized OSA monitoring for at least three economic development bond programs, including Nissan.

This report summarizes OSA's activities to date in planning, organizing, and implementing a monitoring program for specified economic development projects funded by monies derived from general obligation bonds.

In 2003, the Mississippi Legislature authorized OSA monitoring activities for three of the largest economic development bond projects, including: the Nissan project in Madison County, the Northrop Grumman project in Jackson County and projects funded under authority of the Mississippi Land, Water and Timber Resources Act. The respective statutory authorities directed the appropriate entity to: *"...reimburse reasonable, actual, and necessary costs incurred by the Department of Audit in providing services related to a project for which funding is provided from the use of the proceeds of such bonds."*

The State Auditor, responding to legislative interest in developing a bond monitoring program assessing all economic development bond projects and programs aimed at job creation, further agreed to monitor two (2) additional projects: the Howard Industries project in Jones County; and projects funded with monies from the Rural Impact Fund created by the 2003 Mississippi Legislature.

These five projects are currently the extent of OSA's economic development bond monitoring program. This report includes a project profile outlining each of the five (5) projects, which together create over 10,000 jobs and require more than \$500 million in public debt financing.

Through its monitoring program, OSA intends to accomplish two main purposes:

- Conduct a continuing series of monitoring activities aimed at promoting accountability for taxpayer-supported funding of economic development projects aimed specifically at job creation.
- Provide the Legislature with information relevant to economic development bond activities by examining the costs and benefits of specified projects.

By documenting the formative stages of development for each of these projects, OSA hopes to contribute to the further refinement of future state initiatives aimed at stimulating economic growth through job creation and related activities. At the same time, OSA also intends to examine methods for developing cost-effective approaches to managing long-term programs requiring continuous monitoring.

On December 31, 2003 Nissan became the first bond project under review to reach a job creation verification date. While final verification is still pending because of privacy issues concerning employee records, Nissan has apparently attained its initial goal of creating 4,000 new direct full-time jobs, thereby entitling them to the full amount of training monies and tax incentives, discussed elsewhere in this report.

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Background

In January, 2001, following passage of legislation the previous summer to finalize state incentives for the Delta I phase of the Nissan project, the Office of the State Auditor issued a summary outline of the memorandum of understanding (MOU). Responding to this report, Representative Billy McCoy, Chairman of the Ways and Means Committee, requested that OSA begin monitoring both Nissan's expenses and the internal controls being developed by the Mississippi Development Authority.

OSA Involvement

The Office of the State Auditor began to furnish the chairmen of the Senate Finance Committee and the House Ways and Means Committee regular reports regarding project expenditures. Following passage of legislation in the summer of 2002 finalizing the State's Delta II phase incentive package regarding Nissan, OSA contracted with Windham and Lacey, Certified Public Accountants to assist OSA in examining specific MDA internal controls.

In November, 2002 OSA made its first visit to Nissan headquarters in Smyrna, TN. In a limited review report issued in February, 2003 OSA addressed a variety of internal control issues including several related to documentation of training activities and expenses.

On February 11, 2003 "A Performance Review of the Cost Comparison of Deliverable Water for the Nissan Plant" was completed and issued at the request of Senator Charlie Ross. This report, along with "A Limited Review of the Mississippi Major Economic Impact Authority's Nissan Project", which contains the Windham and Lacey findings, can be accessed on the OSA website at: www.osa.state.ms.us.

OSA Authority

In 2003, the Mississippi Legislature provided funds to the Office of the State Auditor (OSA) to monitor specified projects funded with economic development bonds. OSA is authorized to perform such work upon request of the Legislature, in accordance with Section 7-7-211 (c) of the Mississippi Code of 1972, as amended:

To study and analyze existing managerial policies, methods, procedures, duties, and services of the various state departments and institutions upon written request of the Governor, the Legislature, or any committee or other body empowered by the Legislature to make such a request to determine whether or where operations can be eliminated, combined, simplified or improved;

The Office of the State Auditor has, in addition, specific legal authority to engage in continuous monitoring when required for investigative or other related purposes, as stated in Section 7-7-211 (d):

...In complying with the requirements of this subsection, the department shall have the authority to conduct all necessary audit procedures on an interim and year-round basis.

OSA's Performance Audit Division, in implementing a monitoring program for the specified projects, is developing methods to routinely examine and verify project expenditures, evaluate and assess project procedures, determine and verify job creation benchmarks, and other appropriate monitoring activities depending on individual project requirements.

Legislative Direction

By authorizing in its 2003 session the oversight of agricultural development programs with a predominantly rural emphasis, such as the *Mississippi Land, Water and Timber Resource Act*, as well as the Nissan and Northrop Grumman super projects, it was apparent to the Office of the State Auditor that monitoring should include all job creating bond-funded projects and programs, regardless of size, economic sector, or urban/rural orientation.

Particular attention will be to paid to the job creation 'outputs' and 'outcomes'. The Legislature expressed its concerns with the creation of quality jobs with the passage of the *Mississippi Advantage Jobs Act* in the Second Extraordinary Session of the 2000 Legislature, and the subsequent enactment of House Bill 1 in the Third Extraordinary Session. This legislation marked a new and more direct legislative approach to stimulating private sector job creation.

The legislative intent, as stated in the Act in Section 57-62-3 (a) and (b) (i) reads:

It is the intent of the Legislature that: (a) The State of Mississippi provide appropriate incentives to support the establishment of quality business and industry that hold the promise of significant development of the economy of the State of Mississippi through the creation of quality jobs; (b) The amount of incentives provided under this chapter in connection with a particular establishment shall: (i) Be directly related to the jobs created as a result of the establishment locating in the State of Mississippi.

Since 2000, amendments to the *Mississippi Major Economic Impact Act* linked specific numbers of new jobs to multi-million dollar state bond commitments to secure other large public and private investments which might have otherwise gone outside the State. Both the *Mississippi Land, Water and Timber Resources Act* and the *Mississippi Rural Impact Act* have attempted to sustain this linkage between jobs and public bond financing on a more modest scale. Such programs, it is hoped, will stimulate private sector capital improvements and expansion. These programs were intended to do this, not only in more urbanized areas of the state, but in rural areas as well.

The State Auditor's Role

By documenting the formative stages of development for each specified economic development project, OSA hopes to contribute to the further refinement of future state initiatives aimed at stimulating economic growth. At the same time, OSA intends to examine methods for developing cost-effective approaches to managing long-term programs requiring continuous rather than annual or periodic monitoring.

The design and implementation of OSA's Economic Development Bond Monitoring Program represents an important step in the evolution of state oversight and accountability systems. The mere size of the bonds alone, over \$500 million dollars in less than three years, provides sufficient justification for more rigorous and extensive application of the 'checks and balances', the hallmark of OSA's financial and compliance audits. Therefore, this monitoring activity may be seen as distinctive in two (2) major respects:

Emphasizing Accountability Features

- **By grouping economic development bond programs together, OSA can compare and contrast accountability features.** There appear to be significant variations among the five programs/projects regarding program guideline requirements. Examples might include such program elements as job creation targets, collateral requirements for loans and whether matching funds and/or 'equity infusion' is/are required by the grantee as a condition for project approval.
- **The use of continuous monitoring will assist OSA in identifying issues relevant to planning its annual financial audits.** Many of these projects involve activities such as construction, hiring, equipment purchase, training, and bond retirement which are more or less continuous long-term activities taking place over a 15 or even 20 year period. This will enable OSA to better determine areas where more detailed financial and compliance auditing is justified and provide both timely and useful information for legislative policymaking purposes.

Each accountability feature has its own monitoring issues and concerns. For example, there appear to be marked differences among projects in such audit parameters as job definitions, wage measurement to determine job 'quality', and as the consequences for failure to attain job creation targets. While it may be that program accountability features are appropriately different from one program to the next, the monitoring and analysis of specified projects are intended to assist the Legislature in making decisions regarding the appropriateness of specific accountability features in future economic development initiatives.

Evaluating Bond Practices

In addition, OSA is keenly interested in the cost-effectiveness of current practices regarding the issuance of general obligation bonds and similar forms of both long-term and short-term public debt. As bonds and other similar public debt instruments continue to evolve, so must Mississippi's strategies to achieve even greater efficiencies in funding activities of this type and magnitude.

Monitoring Program Implementation

While OSA's methods for monitoring specified economic development projects are still in their formative stages of development, plans are underway to expand current monitoring activities, including an increasing number of site visits during the first quarter of Calendar Year 2004. Although many of the project monitoring activities can be conducted based on a review of documents and records maintained by the Mississippi Development Authority and other state agencies, expanded independent field verification of construction, purchasing, equipment acquisition, and personnel activities is needed to ensure that an appropriate level of accountability is maintained.

Prescribing Corrective Actions

In the event of significant problems noted during a monitoring procedure, a copy of the site monitoring worksheets (**See Attachment 7**) and a written report, along with any supporting documentation, will be provided at the earliest possible date to the State Auditor who will determine the appropriate course of action. In addition, a performance auditor will be assigned, whenever possible, to attend scheduled public meetings of boards and other governing bodies involved in oversight of programs whereby bond monies are being utilized for economic development purposes.

Table 1 shows a breakdown of the projected jobs created by the five (5) projects/programs selected for inclusion in the OSA Economic Development Bond Monitoring Program.

Table 1
OSA Bond Monitoring Program – Projected Jobs
as of 1-1-2004

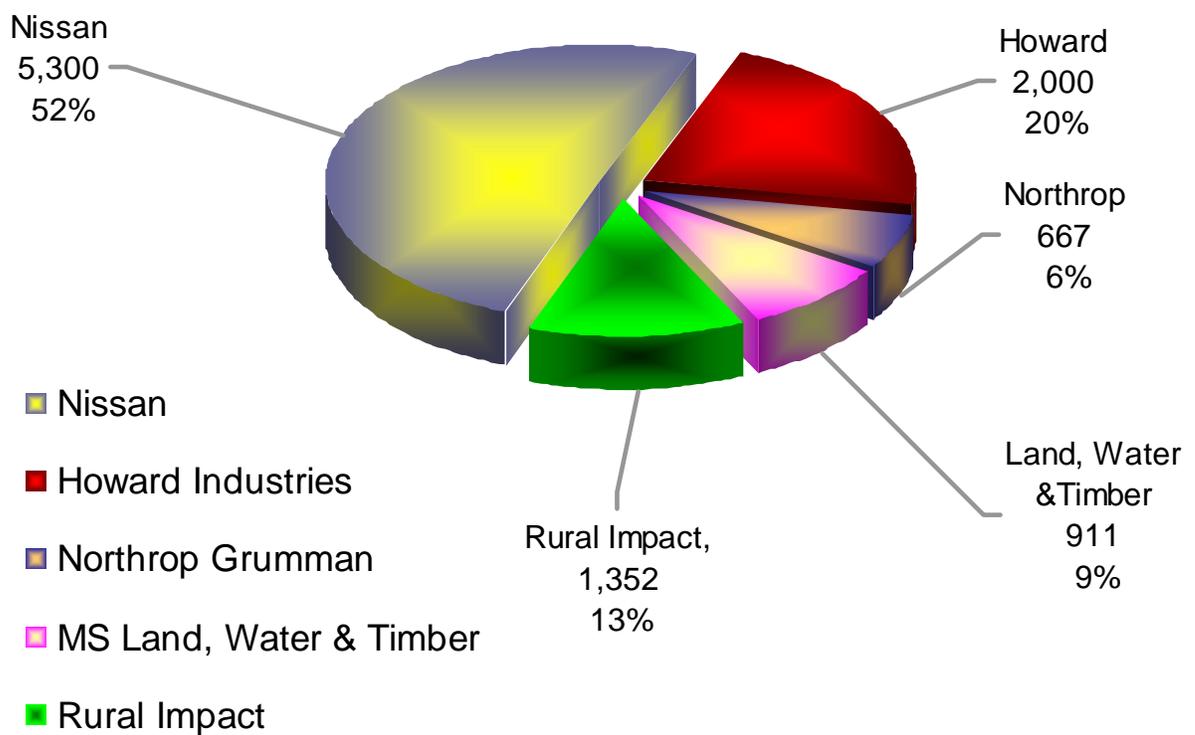
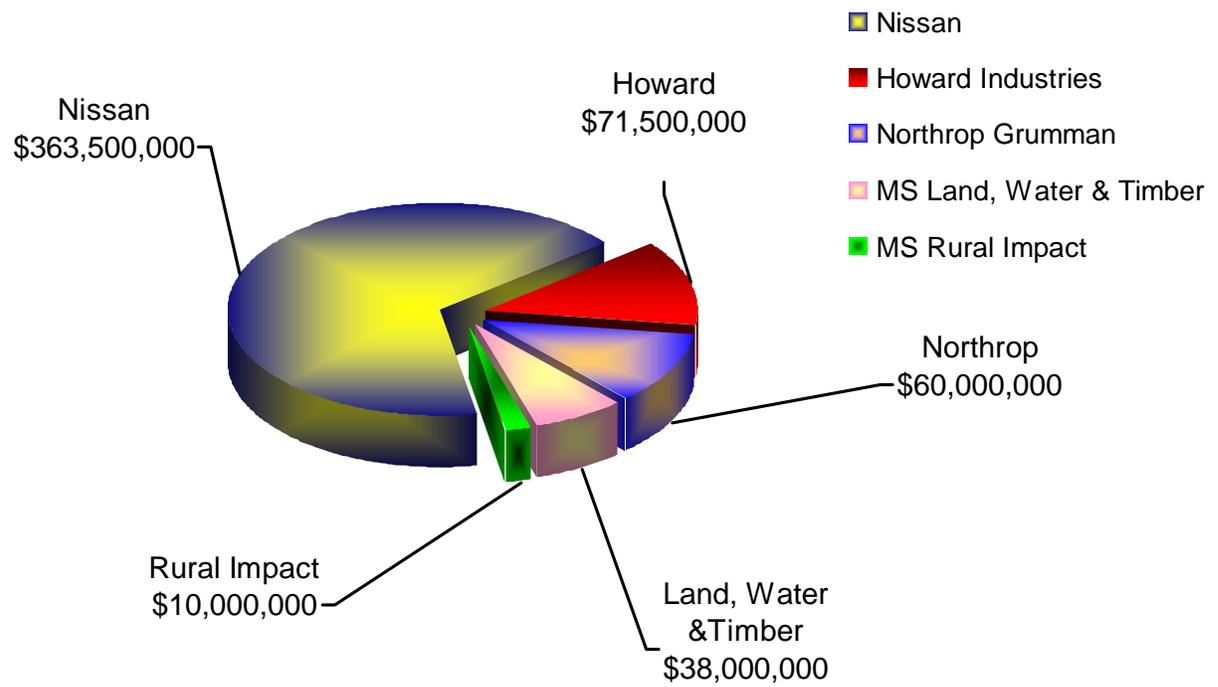


Table 2 shows a breakdown of the bond funds authorized for the five (5) projects/programs selected for inclusion in the OSA Economic Development Bond Monitoring Program.

Table 2
OSA Bond Monitoring Program – Bond Funds Authorized
as of 1-1-2004



Nissan - Project Narrative

The state approval of legislation in the three extraordinary sessions in 2000 were watershed events which set precedents for attracting large business and manufacturing concerns to Mississippi. Projects in Nissan's category (Section 57-75-5 (iv) of the Mississippi Code of 1972, as amended, must involve a minimum initial capital of seven hundred fifty million (\$750,000,000) dollars and produce at least 3,000 jobs. Nissan actually committed itself to 4,000 new jobs by December 31, 2003 and has, pending verification, satisfied this hiring goal.

As of January 23, 2004 total project expenditures were \$289,553,616.12. This represents approximately eighty percent (80%) of state bond funds issued.

Total capital investment approaching \$1.2 billion dollars has occurred thus far. It is still premature to reliably determine how many years may be required to recoup the public investment already made with respect to the Nissan project.

The *Mississippi Major Economic Impact Act* contains at least three separate funding provisions for monitoring activities involving both the Mississippi Development Authority and OSA, including Section 57-75-15(4)(c) of the Mississippi Code of 1972, as amended, which provides OSA funds for the Nissan Project. These funds: *"...may be used to reimburse reasonable, actual and necessary costs in providing services related to a project for which funding is provided from the use of proceeds of such bonds."*

The Office of the State Auditor has met with MDA on several occasions to discuss coordination of monitoring activities. Agreement was reached on the series of procedures to be applied to the accounting and financial records of Nissan.

OSA contracted with an accounting firm, Windham and Lacey, LLP, to examine Nissan management and accountability issues which were included in a report issued in February, 2003. Among the issues discussed were: the financial integrity of the trust created by Nissan North America, Inc.; policies and procedures used by MDA to award contracts; requirements regarding the use of incentive monies used for employee training; policies used to ensure compliance by Nissan with the memoranda of understanding and various state laws; and construction warranties and State liabilities.

At the same time, OSA, in a separate review, examined the comparative costs of potable water from two providers, the City of Jackson, under a contract entered into on January 8, 2003, and the Pearl River Valley Water Supply District. Construction of a treatment plant and related issues were discussed in a report entitled: "A Performance Review of the Cost Comparison of Deliverable Water for the Nissan Plant".

Relevant materials regarding the incentives and improvements provided to the Nissan Project are shown in Attachments 1 - 6. It is noted that Nissan has certified that it met its job creation target of 4,000 new full-time direct jobs by the December 31, 2003 deadline. This qualified Nissan North America to fully receive training monies established in state law and clarified in the respective Memorandum of Understanding (MOU) for each of the two current phases (Delta I &

II) of the project. As soon as feasible, it is hoped that privacy issues preventing the release of employee tax information will be resolved so that accurate job verification procedures may be completed.

OSA and MDA personnel have made two (2) trips to Nissan offices in Smyrna, Tennessee to examine Nissan records to determine the status of compliance activities. Additional visits will be needed to examine company records and evaluate the effectiveness of agency oversight policies. It is anticipated that an OSA performance auditor will return to Nissan soon to complete the audit of training expenditures related to the first phase of the Nissan project. At least one additional visit will be needed before the end of the calendar year to examine records and verify documents regarding the second phase.

Nissan - Project Profile

Bond Purpose-

To enable Nissan North America, Inc. to construct an automobile manufacturing facility in Madison County, Mississippi.

Bond Authorizations -

Two separate authorizations totaling \$363,500,000 were approved by the Legislature in Section 57-75-15 (1)(d).

Bonds Issued, Sold, and Closed

The State Bond Commission issued \$363,500,000 in variable rate bonds in late November, 2003. The initial short-term rates varied from 1.06% to 1.09%. The State issued \$83,500,000 in non-taxable bonds and \$280,000,000 in taxable bonds. The bonds are convertible to a fixed rate should it be deemed necessary to 'lock in' a rate several years from now. Prior to issuing the bonds, the State had previously issued \$305,000,000 in short-term debt.

Job Creation Commitments

Nissan committed to creating 4,000 new direct full-time jobs by December 31, 2003.

Nissan committed to creating an additional 1,300 full-time jobs by December 31, 2004.

Status of Job Creation Commitments -

Pending verification Nissan appears to have met the December 31, 2003 benchmark of 4,000 new direct jobs.

Matching Funds

Nissan agreed in 2000 to an initial capital investment of \$750,000,000 in its first phase, Delta I. In 2002, Nissan committed to a second construction phase, Delta II, and made an additional capital investment of \$500,000,000, bringing the total company funds involved to at least \$1.2 billion dollars.

Funds for OSA Monitoring

Section 57-75-15(4)(c) authorizes OSA to be reimbursed actual costs.

Status of OSA's Nissan Project Monitoring

OSA and MDA personnel have made two (2) trips to Nissan offices in Smyrna, Tennessee to examine Nissan records to determine the status of compliance activities.

OSA's Performance Audit Division began project data base filing to document all relevant information regarding the project.

Howard Industries - Project Narrative

Passage of Senate Bill 2584 enacted during the 2003 Regular Session of the Mississippi Legislature amended the Mississippi Major Economic Impact Act, Sections 57-75-1 et. seq., of the Mississippi Code to make Howard Industries the ninth project enumerated in the statute.

With a ten-year goal of adding 2,000 jobs beyond its 2,039 base level of employment, the eighty million (\$80,000,000) dollars total capital investment by the company makes it one of the largest economic development projects undertaken by the State to date. The project will construct two manufacturing facilities in Jones County, Mississippi which will be used to produce electrical transformers.

State support includes forty million (\$40,000,000) dollars in industrial development revenue bonds to be loaned by the Mississippi Business Finance Corporation and thirty-one million five hundred thousand (\$31,500,000) dollars in Impact bonds authorized under the Mississippi Major Economic Impact Act.

In addition, the State of Mississippi will provide up to five million (\$5,000,000) dollars for training and related expenses and another one million dollars for recruitment and screening of new employees. The training funds would be reduced by \$3,000 for each job not created by the first state employment commitment date, which is: July 1, 2008.

Early in 2004, OSA intends to make its initial Jones County site visit to develop the baseline data required for purposes of monitoring Howard Industries. It is the intention of OSA to work closely with the Mississippi Development Authority, the Mississippi Major Economic Impact Authority, and the Mississippi Business Finance Corporation to evaluate and monitor financing implementation activities.

Howard Industries - Project Profile

Bond Purpose

To construct and equip two manufacturing facilities in Ellisville and Jones County, Mississippi;

Bonds Authorized

The State authorized \$40,000,000 in industrial development revenue bonds to be loaned by the Mississippi Business Finance Corporation; and \$31,500,000 in Impact bonds authorized under the Mississippi Major Economic Impact Act, Sections 57-75-1 et seq., Mississippi Code of 1972, as amended.

Job Creation Commitments

The base measurement date is April 15, 2003.

700 new full-time employees by July 1, 2008.

1,300 additional new full-time employees by July 1, 2013.

State Incentives Tied to Number of Actual Jobs Created and Maintained

State provides up to \$5,000,000 for training.

State provides up to \$1,000,000 for recruitment and screening of new employees.

Matching Funds

Howard Industries must make a capital investment of at least \$80,000,000.

Status of OSA's Howard Industries Monitoring

On-site visits will be scheduled in 2004.

OSA's Performance Audit Division began developing data base files to document all relevant information regarding the project. OSA has made various contacts with MDA and other agency personnel.

Land, Water and Timber Resources Act - Project Narrative

The Mississippi Legislature in 2000 established the “Mississippi Land, Water and Timber Resources Act” in Sections 69-46-1 et seq., to assist the Mississippi agricultural industry in developing, marketing, producing, and distributing agricultural products. It provided for the creation of the Mississippi Land, Water and Timber Resources Board. The executive director of the Mississippi Development Authority and the Commissioner of Agriculture, serve as co-chairmen of the Board.

Ten million (\$10,000,000) dollars in general obligation bonds were authorized in 2001, eighteen million (\$18,000,000) dollars in bonds in 2002, and another ten million (\$10,000,000) dollars were authorized in 2003. Ten million (\$10,000,000) dollars in bonds in 2001 and an additional six million (\$6,000,000) dollars in bonds were issued in 2002. Twelve million (\$12,000,000) dollars in bonds were issued in 2003. The remaining bonds are to be issued this spring.

The Screening and Finance Committee appointed by the Board meets at least monthly to review projects for submission to the Board for consideration. The Board meets at least quarterly and additionally when necessary to conduct business. In the event of a loan or contractual default, the Board may seek repayment.

The Board may provide funds to public and private entities through grants, loans, and loan guarantees. Projects have ranged in size from Mississippi Beef Processors in Yalobusha County, which was initially authorized to receive five million (\$5,000,000) dollars, to Rabbitman Farms in Marion County which was granted \$40,000.

Implementation of Land, Water and Timber (LWT) projects involving either use of new technologies, or development of new facilities, has shown that highly complex projects require considerably higher levels of expertise. Cost overruns led to the subsequent hiring of a consulting group to seek out cost savings and to provide a greater measure of project control for the Mississippi Beef Processors project. At the request of the Board, OSA agreed to attend LWT meetings as part of OSA’s monitoring process.

Additional funds totaling approximately \$3.5 million dollars, along with an increase to approximately \$34.5 million dollars in the State guaranteed loan have been required to date in order to significantly improve the prospects for financial viability of the Mississippi Beef Processors project. This experience may have led the Legislature to authorize LWT to reimburse OSA for actual costs incurred in monitoring LWT projects.

In August, 2003, the State Auditor released a limited review of the Mississippi Land, Water and Timber Resources Act in which OSA offered to monitor projects authorized by the Board. In September, the Board at its regular meeting authorized, through its minutes, the use of the previously appropriated funds by OSA for these purposes. The monies were made available in House Bill 1596, 2003 Regular Session. OSA has made several on-site monitoring visits as of this report date and intends to continue to make appropriate visits in 2004. Personnel from OSA will continue to attend regular board meetings and participate in other oversight activities as needed.

Mississippi Land Water and Timber Resources Act - Project Profile

Bond Purpose

To enable the Mississippi Land, Water and Timber Resources Board to award grants and loans to public and private entities which enhance the Mississippi agricultural industry's ability to develop, market, produce, and distribute agricultural products.

Bonds Issued, Sold, and Closed

Since 2001 a total of \$38,000,000 in general obligation bonds have been authorized by the Mississippi Legislature. In 2001, \$10,000,000 in taxable general obligation bonds were issued. These bonds were issued at fixed rates ranging from 3.0% to 5.0% over a 10-year period. In 2002, another six million \$6,000,000 in taxable bonds were issued at fixed rates varying from 3.0% to 4.83% over a 10-year period. In 2003, an additional \$12,000,000 in taxable bonds were issued at fixed rates varying from 3.0% to 4.0%. The remaining \$10,000,000 in bonds is slated to be issued before the end of the current fiscal year.

Funds Awarded as of 1/01/04

To date, \$19,121,305 in bond proceeds have been awarded to 25 projects.

Job Creation Statistics

Of the twenty-five projects, nine (9) were approved in 2003. The 2003 projects were expected to generate 129 new jobs. Overall at least 911 jobs are slated to be created.

Funds for OSA Monitoring

House Bill 1596, 2003 Regular Session, authorized OSA to be reimbursed actual costs.

Status of OSA's Land, Water and Timber Monitoring

OSA has made several on-site monitoring visits as of this report date and intends to continue to make appropriate visits in 2004.

Personnel from OSA have attended and will continue to attend regular board meetings and participate in other oversight activities as needed.

OSA's Performance Audit Division began developing data base files to document all relevant information regarding the projects. OSA has made various contacts with MDA and other agency personnel.

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Table 3
Land, Water and Timber Resources Board – Approved Projects as of 1-1-04

Grantee	Date Approved	Amount of Grant or Loan	Jobs
Agristar (Stewart Orchids)	12/5/2002	89,600.00	9
Associated Physics (Leflore County) Hydrogen Burner	7/7/2003	586,671.00	78
ATi Aeration Corp.	10/17/2002	500,000.00	68
Church Hill Produce (Jefferson County)	7/7/2003	110,000.00	10
Coast Transit Authority	10/17/2002	125,000.00	
Consolidated Catfish Companies, LLC	12/5/2002	2,300,000.00	20
Covington County (Blueberry Growers)	12/5/2002	800,000.00	255
Georgia-Pacific	8/1/2002	648,305.00	
Heartland Catfish Co.	2/26/2003	1,250,000.00	28
Indi-Bel, Inc. d/b/a Delta Western	12/5/2002	1,500,000.00	40
INTIME (Crop Input Management Program)	1/22/2003	750,000.00	
MS Alternative Energy Enterprise Project #1	4/12/2002	849,750.00	
MS Alternative Energy Enterprise Project #2	5/23/2003	876,915.00	
MS Beef Processors (Yalobusha County)	7/30/2001	5,000,000.00	350
MS Forest Products (MSU) (Timtek)	1/18/2002	1,000,000.00	
MTA-Alt. Energy Enterprise (Device Development)	12/5/2002	697,422.00	
MTA-Alt. Energy Enterprise (Matching Funds)	10/17/2002	92,500.00	
Nichols Enterprise, LLC	10/17/2002	61,512.00	
Rabbitman Farms	5/23/2003	40,000.00	3
Sumrall Farms	2/26/2003	66,500.00	
Sylvester's, Inc.	5/1/2002	92,500.00	40
Thames Research Group/USM	12/18/2002	250,000.00	
USM Polymer Institute (Forrest County)	1/18/2002	1,000,000.00	
Wayne County (Blueberry Growers)	2/26/2003	304,630.00	8
Yazoo Planters Gin Company, Inc.	5/23/2003	130,000.00	2
Total		\$19,121,305.00	911

Source: Mississippi Land, Water and Timber Resources Board

Mississippi Rural Impact Act - Project Narrative

House Bill 1335 enacted by the Regular Session of the 2003 Mississippi Legislature authorized ten million (\$10,000,000) dollars in general obligation bonds for the purpose of providing grants, loans, and loan guarantees to be placed in an account entitled the 'Mississippi Rural Impact Fund'. The purpose of this program, as stated, is to generally promote business and economic development in rural areas. This program approved forty-two (42) municipal and county projects before the end of 2003.

Projects have ranged in size from \$25,000 for a livestock arena in Edwards to five hundred thousand (\$500,000) dollars to assist ACI Building Systems, Inc. in Batesville. To date, projects requests totaling at least \$9,672,914 have been approved. In addition, these funds have been leveraged against at least \$5,678,770 in local funds and \$46,496,148 from the businesses involved and others.

In order for a community to be considered to be 'rural' for the purposes of this grant program, it must have a population of less than 10,000 based on the latest decennial census. A county must have a population of less than 30,000.

Eligible projects funded with Rural Impact Fund (RIF) monies must be publicly owned with the exception of loan guarantees to rural businesses. Among the allowable uses funded to date are: construction, rehabilitation, and repair of buildings, sewer facilities and sewer systems; acquisition, development, and improvement of real property; and loan guarantees up to eighty (80%) percent of the loan amount. Professional expenses may not exceed eight (8%) of the grant award.

Mississippi Rural Impact Act - Project Profile

Bond Purpose

To provide grants, loans, and loan guarantees to municipalities and counties to promote business and economic development in the rural areas of the state.

Bonds Authorized

The State authorized \$10,000,000 in House Bill 1335, 2003 Regular Session of the Mississippi Legislature.

Bonds Issued, Sold, and Closed

In July, 2003 \$10,000,000 in taxable general obligation bonds were issued with fixed rates varying from 2.75% to 5.5% over a period of 15 years.

Job Creation Statistics

The forty-two projects awarded in 2003 are intended to generate 1,392 new full-time jobs and six of the projects claim an additional 3,917 existing jobs retained.

Matching Funds

The forty-two projects awarded in 2003 utilize at least \$5678,770 in local funds and \$46,496,148 in business and other funds, according to MDA.

Status of OSA's Rural Impact Monitoring

On-site visits will be scheduled in 2004.

OSA's Performance Audit Division began developing data base files to document all relevant information regarding the projects. OSA has made various contacts with MDA and other agency personnel.

Table - 4
Rural Impact Fund – Approved Projects as of 1-1-2004

Grantee	Purpose	Amount Approved	Agreement Date
Town of Tylertown	roof rehabilitation	240,000	08/22/2003
Kemper County	working capital	350,000	10/14/2003
City of Carthage	water system and access road	249,146	08/22/2003
Jasper County	construct building	250,000	08/22/2003
City of Baldwin	road improvements	249,159	08/22/2003
City of Belzoni	working capital	425,000	07/30/2003
Town of New Hebron	building rehabilitation	250,000	08/25/2003
City of Batesville	working capital	500,000	09/09/2003
Wayne County	access road, water & sewer	148,805	09/05/2003
Itawamba County	access road, water & sewer	115,000	09/05/2003
Union County	infrastructure / environmental study	250,000	09/15/2003
Town of Decatur	access road	250,000	09/15/2003
City of Mendenhall	sewer force main & pump station	102,265	09/17/2003
Town of Flora	access road, extend water and sewer	250,000	09/17/2003
Leake County	access road	105,000	09/23/2003
City of Verona	purchase land & improvements	250,000	09/23/2003
City of Batesville	road improvements	250,000	09/17/2003
Town of Union	road improvements	250,000	09/17/2003
City of Sardis	utility & road improvements	250,000	09/23/2003
Town of Goodman	sewer and water system	200,000	09/17/2003
Town of Meadville	road & drainage improvements	243,790	10/09/2003
Copiah County	extending water lines	147,518	10/09/2003
City of Hazelhurst	access road, site & drainage	250,000	10/09/2003
City of Louisville	testing facility	250,000	10/09/2003
Lawrence County	building expansion	250,000	10/08/2003
Town of Tylertown	building expansion	217,639	10/09/2003
Town of Monticello	building purchase	250,000	10/09/2003
City of Brookhaven	road & building improvements	250,000	10/15/2003
Town of Edwards	roof rehabilitation	25,000	10/15/2003
City of Bay Springs	sewer improvements	250,000	10/17/2003
Marion County	building expansion	250,000	11/14/2003
City of Durant	building modification	250,000	11/14/2003
City of Brookhaven	construct building	250,000	12/08/2003
City of Amory	road improvements	250,000	12/02/2003
Town of Macon	road improvements	250,000	12/08/2003
City of Columbia	drainage & parking improvements	250,000	12/08/2003
City of Booneville	infrastructure	250,000	12/12/2003
City of Nettleton	building and parking improvements	150,000	12/12/2003
Town of Belmont	site and gas improvements	206,093	12/12/2003
City of Eupora	access road	128,593	12/12/2003
Town of Renova	building purchase	250,000	12/29/2003
Attala County	road improvements	157,150	12/29/2003
Total		9,672,914	

Source: Mississippi Development Authority, Division of Community Services

Table 5
Rural Impact Fund Projects – Projected Jobs Created and Total Project Cost
As of 1-1-2004

Grantee	Purpose	Total Project Cost	Jobs
Industrial Building	roof rehabilitation	245,300	50
Pharma Pac, Inc.	working capital	1,235,000	46
HiSAN, Inc.	water system and access road	1,549,146	25
HOL-MAC, Inc.	construct building	1,988,135	50
Sunrise Medical	road improvements	249,159	10
Freshwater Farms, Inc.	working capital	425,000	
Dollar Store	building rehabilitation	250,000	10
ACI Building Systems, Inc.	working capital	500,000	20
Wayne County Blueberry	access road, water & sewer	678,755	5
Max, LLC	access road, water & sewer	2,115,000	175
PUL Alliance	infrastructure / environmental study	560,000	
Industrial Park	access road	276,180	15
Holiday Inn Express	sewer force main & pump station	1,602,265	10
Primos Hunting Calls, Inc.	access road, extend water and sewer	500,000	10
Choctaw Maid Farms, Inc.	access road	3,105,000	
Fred's Discount Store	purchase land & improvements	250,000	20
Lowe's Home Improvement	road improvements	674,000	125
Choctaw Maid Farms, Inc.	road improvements	796,000	50
Lake Sardis Marine	utility & road improvements	1,342,835	15
New Deal/New Dollar	sewer and water system	1,225,000	18
Telepak Network	road & drainage improvements	243,790	15
Stringer Family Funeral Ser.	Extending water lines	154,549	5
Industrial Park	access road, site & drainage	374,025	5
Taylor Machine Works, Inc.	testing facility	309,118	
Atlas Manufacturing	building expansion	250,000	15
It Snaps On, Inc.	building expansion	217,639	10
Triple J. Manufacturing	building purchase	718,950	18
Cortez Byrd	road & building improvements	550,000	15
Livestock Arena	Roof rehabilitation	61,331	15
Peco Foods, Inc.	sewer improvements	900,000	
Rutter Rex, Inc.	building expansion	1,331,964	40
First Class Linens, LLC	building modification	385,664	43
Sola Fide	construct building	462,614	7
Polypride, Inc.	road improvements	1,284,481	15
Cal Jak/Nighthawk	road improvements	250,000	5
Pioneer Aerospace	drainage & parking improvements	250,000	40
City of Booneville	infrastructure	14,400,000	100
City of Nettleton	building and parking improvements	150,000	5
Town of Belmont	site and gas improvements	3,656,093	60
City of Eupora	access road	128,593	50
Town of Renova	building purchase	16,000,000	200
Attala County	road improvements	239,490	35

Source: Mississippi Development Authority, Division of Community Services

Northrop Grumman - Project Narrative

In 2002 and 2003 the Mississippi Legislature authorized a total of sixty million (\$60,000,000) dollars in general obligation bonds for the modernization and expansion of the Northrop Grumman Shipbuilding facilities at the state-owned shipyard in Pascagoula.

To date, this company has requested one hundred and forty-four million (\$144,000,000) dollars towards this project. It anticipates the balance of funding through legislative requests in 2004 and 2005. In July, 2003 the State of Mississippi entered into a memorandum of understanding with Northrop Grumman to add 667 fulltime new direct job to its base employment of 10,725 by December 31, 2007.

The Mississippi Bond Commission authorized the issuance of forty million (\$40,000,000) dollars in September, 2003. Following this, MDA entered into a contract in October with Johnson Bailey Henderson McNeel Architects/Engineers to review and approve specifications. In November, 2003 MDA entered into a contract with Parsons, Inc. for construction management services. This contract was approved by the Personal Service Contract Review Board in November of this year.

On-site visits by OSA personnel are planned for 2004 .

Northrop Grumman - Project Profile

Bond Purpose

To modernize and expand Northrop Grumman Ship Systems, Inc. facilities at the State Shipyards in Gulfport and Pascagoula, Mississippi;

Bonds Authorized

The State authorized \$12,000,000 under Senate Bill 3197, 2002 Regular Session of the Mississippi Legislature; and

The State \$48,000,000 authorized under Senate Bill 2886, 2003 Regular Session of the Mississippi Legislature

Bonds Issued, Sold, and Closed as of 1/01/04

The State Bond Commission has issued \$40,000,000 in taxable general obligation bonds at fixed rates varying from 3.% to 5.0% over a ten-year period.

Job Creation Commitment

The base measurement date is March 31, 2003:

Northrop Grumman must create 667 direct full-time jobs by December 31, 2007.

Total Funding Requested from the State of Mississippi

The total funds to be requested are \$144,000,000, the balance to be requested in 2004 and 2005.

Matching Requirements

Capital investment of \$25,000,000 to match 2002 bonds; and capital investment of \$96,000,000 to match 2003 bonds.

Total Projected Capital Investment

The total projected capital investment is \$288,000,000.

Funds for OSA Oversight

Senate Bill 2886 authorized OSA to be reimbursed actual costs by MDA.

Status of OSA's Northrop Grumman Monitoring

On-site visits will be scheduled in 2004.

OSA's Performance Audit Division began developing data base files to document all relevant information regarding the projects. OSA has made various contacts with MDA and other agency personnel.

Attachment 1

Nissan Training Monies - Delta I Project

Overview

On November 8, 2000 Nissan North America, Inc. and The State of Mississippi finalized an agreement initiating the first phase of capital improvements at its site in Madison County, Mississippi. These plans, commonly referred to as the 'Delta I' project, require an initial capital investment of seven hundred fifty million (\$750,000,000) dollars on Nissan's part. On completion, this first phase was intended to create at least 4,000 new direct full time jobs by December 31, 2003.

The initial facility placed a 2,000,000 square feet manufacturing facility near Canton which was designed to start with the capacity of producing 250,000 vehicles a year. Twenty months later, Nissan executed a second agreement which substantially expanded the scope and scale of the project.

In return for the creation of the 4,000 new direct jobs by December 31, 2003, the State of Mississippi agreed to an incentives package with a number of financial incentives. The cornerstone of the State's inducement package is the three hundred fifty-one million (\$351,000,000) dollars in general obligation bonds authorized in 2000 during the Mississippi Legislature's third extraordinary session under the provisions of the Advantage Mississippi Act and the Mississippi Major Economic Impact Act. In addition, the State agreed to provide eighty million (\$80,000,000) dollars for training, hiring, and related purposes.

Incentives and Improvements

Among the principal features of the incentive package contained in the Memorandum of Understanding (MOU) were the following:

County contributes twenty million (\$20,000,000) dollars towards related project expenses. (MOU 1.2(b))

The parties to the MOU agree to the Super Project Jobs Tax Credit which accrues at a rate of \$5,000 per employee for a term of 20 years. This is used to offset state income tax owed by Nissan or any other Nissan affiliated company. A similar arrangement on a more modest scale provides a suppliers job tax credit. (MOU 1.3(a) (i))

Nissan is required to pay \$25,000 for 30 years through a fee-in lieu agreement as a franchise tax incentive along with a fee-in-lieu of property taxes equal to one-third of the ad valorem tax levy for ten-year terms, for a period 30 years. (MOU 1.3(b) & (d)).

Contracts are exempt from sales tax and use of the state purchase laws. In addition, machinery, tooling, leases, repair parts and services are also exempt from sales tax. (MOU 1.3 (c) (i) & (ii))

A variety of ad valorem tax exemptions are also in effect for a period of up to 30 years. (MOU 1.3 (d))

Mississippi Advantage Jobs Act benefits allow for quarterly payments for 25 years based on the average salary being 150% of the State average annual wage once it has reached the level of 4,000 new direct employees. However, during the first ten years and extendable for another five (5) years, the effective threshold for quarterly incentive payments is 125% of the average annual wage. Qualification is based on 3,000 new direct jobs until the sixteenth (16th) year and 4,000 new direct jobs in each year thereafter. (MOU 1.3 (e))

The project meets the definition of “Super” project because its initial capital investment is greater than seven hundred fifty million (\$750,000,000) dollars and was intended to maintain at least 3,000 jobs for 20 years. (MOU 1.3 (h)).

The Mississippi Major Economic Impact Authority warrants the site work for up to fifteen million (\$15,000,000) dollars. It may also own and lease water transmission lines and related infrastructure purchased ultimately with the bond proceeds.

A wide range of road improvement and related projects were to be constructed at the State’s expense along with construction of a wastewater treatment facility.

Training Related Expenditures

The State of Mississippi makes an eighty million (\$80,000,000) dollar training contribution in return for a minimum of 4,000 new direct jobs to be created as a result of Delta I by December 31, 2004. If the hiring goal were to fall short of this threshold, the training funds would be reduced by \$11,500 for each unfilled job. (MOU 5.1(a)).

These funds are to be used for the purposes of recruitment, screening, and employment expenditures which, according to the wording in the agreement is basically at Nissan’s request and discretion, especially with regard to the staffing of training and the design and development of training programs.

Summary

The eighty million (\$80,000,000) dollars creates a significant incentive for Nissan to reach and maintain its hiring goals. While the agreement held out the prospect of collaboration with the Community College Workforce Development Program through the State Board for Community and Junior Colleges, it has not materialized to date. Nissan has chosen to conduct its training activities in-house which is its prerogative, as negotiated through the memorandum of understanding

Attachment 2

Nissan Training Monies - Delta II Project

Overview

In June, 2002, Nissan North America, Inc. finalized an agreement initiating a second phase of capital improvements at its site in Madison County, Mississippi. These plans, commonly referred to as the 'Delta II' project, will require an initial capital investment of an additional five hundred million (\$500,000,000) dollars on Nissan's part. On completion, this second phase is intended to create an additional one-thousand three hundred (1,300) new direct jobs under the definition established by the Mississippi Development Authority (MDA). **(See Attachment 3)**

These additional facilities will provide the capacity to produce an additional 125,000 motor vehicles each year under 'Part A' alone. The memorandum of understanding (MOU) also makes reference to a 'Part B' which might also be constructed at such time as deemed appropriate by Nissan.

In return for the creation of the 1,300 additional new direct jobs, 1,000 of which are to be direct Nissan employees, by December 31, 2004, the State of Mississippi agreed not only to provide some additional incentives and improvements, but also to extend and clarify some of the terms negotiated in the Delta I MOU agreement. Basically, the State agreed to utilize general obligation bonds authorized under House Bill 1, 2000 Third Extraordinary Session of the Mississippi Legislature, the Advantage Mississippi Initiative Act, and the Mississippi Major Economic Impact Act to pay for certain expenses, including the additional twenty-three million five hundred thousand (\$23,500,000) dollars for training and for other expenses related to the recruiting, hiring, screening, and relocating of new employees.

Incentives and Improvements

Among the pertinent inducements were/are the following:

Madison County contributes five million (\$5,000,000) dollars towards the State's infrastructure costs.

The MOU parties agree that Nissan fulfills the requirements to qualify for a commercial revitalization deduction from federal taxes for the taxable year that the building is placed in service under Section 1400I of the U.S. Internal Revenue Service Code. The MOU further projects that the State will allocate 75% of its commercial revitalization expenditure for 2002 and 2003, as well as a substantial portion through 2009, as reflected in its allocation plan as required by the IRS Code. (MOU 1.3 (a))

The agreement expands on the definitions of new direct jobs and employees by establishing the previously referred to MDA regulation regarding the seven job factors as the basis for determining whether or not Nissan fully qualifies for the tax benefits in Delta I under the Mississippi Advantage Jobs Act administered by MDA and the State Tax Commission. Only

four (4) of the seven (7) criteria must be met in order for a given employee to qualify as holding a new direct job. (MOU 1.3 (b))

MDA and the Mississippi Major Economic Impact Authority agreed, in principle, to support future enabling Nissan's real estate trust to gain for its foreign beneficiaries exemption from Mississippi income tax for such time in the future as it may be needed. (MOU 1.3 (d))

The agreement also seeks to extend the sales tax and use exemptions, as well as the fee-in-lieu agreement established in Delta I to Delta II. (MOU 1.3 (c) & (e))

The State further agreed to make a series of infrastructure improvements including: the construction of new interstate interchange to be 'substantially complete' by October, 2004 (MOU 2.1 (a)); four other specific road improvements; \$12,000,000 in general obligation bonds to help defray the cost of constructing several building pads (MOU 3.1 (a)); a \$10,000,00 grant to fund expansion of the DAS/Vehicle Preparation Center and a logistics center (MOU 3.2 (b)); expansion of both the public and plant wastewater pre-treatment facilities (MOU 3.3 & 3.4); and water supply improvements outlined in MOU 3.6 to be completed no later than May 31, 2004.

Training Related Monies

The State makes a twenty-three million five hundred thousand (\$23,500,000) dollar contribution in return for the 1,300 new direct jobs to be created under Delta II by December 31, 2004. Should the hiring goals fall short of this level, the training funds would be reduced by \$13,000 for each unfilled job below this threshold (MOU 4.1).

These funds are to be used for allowable Delta I uses related to recruitment, screening, and employment expenditures, as well as mobile units for training purposes for the duration of the start-up phase of the Delta II Project. A listing of allowable training expense is shown in MOU Exhibit B (**See Attachment 4**). The allowable length of training periods for Nissan job titles are shown in MOU Exhibit C (**See Attachment 5**).

Attachment 6 details training expenditures through November 2003. Expenditures for Delta I and Delta II are commingled. Miscellaneous State commitments are listed in MOU Section 5, including a commitment to pursue funds for the Center for Advanced Vehicular Systems (CAVS) at Mississippi State University.

Summary

With the additional twenty-three million five hundred thousand (\$23,500,000) dollars, the total employment-based training commitment has increased to one hundred and three million five hundred thousand (\$103,500,000) dollars, assuming that Nissan meets its combined Delta I & II hiring goals of 5,300 new direct jobs. Furthermore, Delta II brings Nissan's capital investment to at least \$1.2 billion dollars and the State of Mississippi's investment support to well over three hundred fifty million (\$350,000,000) dollars. Verification that job creation goals are met lends additional credibility to the State's economic development efforts regarding both Nissan and future large job-producing ventures

EXHIBIT A

SECTION 57-62-(b)

New Direct Jobs

- I. New direct job means full-time employment in this state in a qualified business or industry that has qualified to receive an incentive payment pursuant to the Advantage Jobs Act, which employment did not exist in this state before the date of approval by the MDA of the application of the qualified business industry pursuant to the provision of the Advantage Jobs Act.
- II. New direct job also includes full-time employment in the state of employees who are employed by an entity other than the establishment that has qualified to receive an incentive payment and who are leased or otherwise provided to the qualified business or industry if such employment did not exist in this state before the date of approval by the MDA of the application of the establishment.

The following factors must be met before employees who are employed by an entity other than the establishment that has qualified to receive an incentive payment may be counted as new direct jobs under the Advantage Mississippi Act.

A. Such employees must be leased to the qualified business or industry

Or

B. Such employees must be otherwise provided to the qualified business or industry.

1. The phrase “otherwise provided to the qualified business or industry” includes employees who work with the assent, for the benefit, and under the control of the qualified business or industry for a substantial majority of the work week to the extent that the employee so provided would be considered the agent or servant of the qualified business or industry under Mississippi law.
2. In determining whether employees are “otherwise provided to the qualified business or industry” under subsection B. 1., all of the following criteria will be considered:
 - (a) whether the employees work full-time at the qualified business or industry site and such site is the employee’ regular place of business;

Attachment 3 Continued

- (b) whether the employees perform services only for the qualified business or industry;
 - (c) whether the employees' job duties, responsibilities, and assignments are controlled by the qualified business or industry;
 - (d) whether the employees' time schedule for the performance of the services/work is controlled by the qualified business or industry;
 - (e) whether the qualified business or industry furnishes the means and appliances for the work of the employees;
 - (f) whether the qualified business or industry furnishes the materials on which the work is done and receives the output thereof, and the employee deals with no other person or entity with respect to the output;
 - (g) whether employees' duties are so integral to the product or service produced by the qualified business or industry that such duties could be performed by direct, in-house employees of the qualified business or industry.
- C. A company providing leased employees or employees otherwise provided must give written notification to MDA of the company's consent that the qualified business or industry may receive the company's Advantage Jobs benefits and that the company forfeits any rights to its own Advantage Job benefits to which it may otherwise be entitled. The Executive Director of the MDA or his designee will determine whether the employee positions so designated qualify as "direct new jobs" under this provision.

EXHIBIT B

RECRUITMENT, SCREENING, TRAINING
AND EMPLOYMENT EXPENDITURES

- Temporary training facility as described in Section 5.2 of the Delta I Agreement
- Mobile units for training purposes throughout the start-up phase of the Delta II Project
- Permanent training facility as described in Section 5.3 of the Delta I Agreement
- Recruiting and screening activities as described in Section 5.4 of the Delta I Agreement and also consisting of the following to the extent incurred by Nissan or its contractors for the creation of New Direct Jobs at the Project Site:
 - Job Fairs
 - Advertising through various forms of media (e.g., radio, publications, Internet, television, programs and such other materials used at fairs, festivals, or other such events)
 - Employee travel/meals to recruit/interview
 - Prospective employee travel/meals to interview
 - Transportation expenses (e.g., company vehicles dedicated to the Delta II Project recruiting, interviewing and employment)
 - Employee compensation and expenses for recruiting/interviewing
 - Administrative expenses for processing applications
 - Temporary services related to recruiting and interviewing
 - Professional recruiting services
 - Telephones/cell phones and monthly invoices for services
 - Equipment (including rentals)
 - Operating supplies and materials (e.g., printed forms, postage, and office supplies)
 - Office furniture and equipment and maintenance of such items
 - Signs
- Hiring and relocation expenses of Nissan and its contractors for the creation of New Direct Jobs at the Project Site, consisting of the following:

Attachment 4 Continued

Pre-employment Training Program

Hiring expenses

- Background checks
- Physicals
- Ergonomic testing
- Other employment related testing
- Allocated portion of employee compensation and expenses for employment staff devoted to hiring or relocation activities
- Temporary services directly related to hiring or relocation activities

Relocation expenses – trainers/trainees

- Travel expenses associated with finding/purchasing home
 - Moving and storage
 - Temporary living expenses, e.g., housing, meals, mileage
 - Visits home
 - Other Nissan employee relocation expenses normally paid by Nissan in accordance with its policies existing as of the date hereof and reasonably acceptable to the State
- Costs incurred for the design, development, and implementation of a customized training and workforce development program for the Delta II Project for training for any of the following: (i) applicants, (ii) hourly employees (production, maintenance, leaders), (iii) supervisors/managers, (iv) engineers, (v) trainers, (vi) salaried exempt and non-exempt personnel, and (vii) contract maintenance personnel and any other contract personnel who fill New Direct Jobs.
- Community college training expenses
- Training program coordinator' compensation and expenses (including temporary living expenses and any necessary relocation expenses) (including Nissan and its contractors in connection with the creation of New Direct Jobs at the Project Site)
- Training course developers' compensation and expenses (including temporary living expenses and any necessary relocation expenses) (including Nissan and its contractors in connection with the creation of New Direct Jobs at the Project Site)
- Contract training instructors' compensation and expenses (including temporary living expenses and any necessary relocation expenses) (including Nissan and its contractors in connection with the creation of New Direct Jobs at the Project Site)

Attachment 4 Continued

- In-house training instructors' compensation and expenses (including temporary living expenses and any necessary relocation expenses) (including Nissan and its contractors in connection with the creation of New Direct Jobs at the Project Site)
- Allocated portion of shop floor (OJT) instructors' compensation and expenses (including Nissan and its contractors in connection with the creation of New Direct Jobs at the Project Site)
- Full-time clerical record-keeping assistance necessary to support, and to the extent directly related to recruitment, employment, or training by Nissan or its contractors in connection with the creation of New Direct Jobs at the Project Site
- Temporary services necessary to support and to the extent directly related to training programs
- Consulting services to support and to the extent directly related to recruitment, hiring, and training
- Training equipment to be used exclusively for training purposes and not to be used in Nissan's manufacturing process
- Allocated portion of repair and maintenance of training equipment (including State or Nissan-owned). The parties agree that Nissan shall not be entitled to recover the repair and maintenance expenses for production floor equipment.
- Operating supplies and materials to support and to the extent directly related to recruitment, hiring and training
- Computerized on-line training (including hardware, software, development, and delivery)
- Computer skills training
- Training of production and maintenance technicians, salaried employees (including area managers), and contract personnel (but only such contract personnel that fill New Direct Jobs at the Project Site), including:
 - NEAT (New Employee Assimilation Training)
 - Standard operation sheet development and training
 - 3 step training – watch / do / explain
 - Basic skills training
 - Assembly / disassembly of trial units / assemblies
 - Training focus group discussions
 - Design and development of visual aids

Attachment 4 Continued

- Design and development of part identification boards
 - A & B important process identification and audit training
 - TPM or preventive maintenance training
 - ISO 9000 and other quality training
 - ISO 14000 and other environmental training
 - Hazardous materials computer access training
 - Job specific and general safety training
 - On the job training
 - Overhead crane training
 - Technical training, including training on specific equipment and training occurring in classrooms
 - Process training
 - Train the trainer training
 - Mentor training
 - New Area Manager training
 - Engineering trial and model development training
 - Leader training classes
 - HR policy and benefit training
 - Mobile power equipment training
 - Job specific training
- Tele-video conference training
 - Foreign language training (if needed)
 - Expenses associated with training Delta II Project employees on vendor equipment
 - Task analysis of jobs to determine training needs
 - Course development and printing
 - Expenditures related to shop floor management training for the Delta II Project
 - Safety equipment to be used exclusively for training purposes and not to be used in Nissan's manufacturing process
 - Maintenance, janitorial and landscaping services for temporary training facility and permanent training facility (as such terms are described above)
 - Utilities for the temporary training facility and the permanent training facility (as such terms are described above) in accordance with a procedure for allocation of all utility costs acceptable to the State

Attachment 4 Continued

- Security for the temporary and permanent training facilities (as such terms are described above)
- Classroom and office furniture and equipment for the temporary training facility and the permanent training facility (as such terms are described above)
- Audio-visual equipment used for training/educational purposes
- Videotaping, video production, editing used for training/educational purposes
- Overtime for staff, instructors, coordinators, clerical personnel to support and to the extent directly related to recruitment, hiring and training
- Expenses directly related to hiring assessments of supervisor candidates for the Delta II Project
- Translations/translators to support and to the extent directly related to recruitment, hiring, and training
- Train-the-trainer program for training staff (both Nissan and contract trainers)
- Rental of mobile powered equipment for training
- Specialized classrooms (e.g., compute skills training lab, electronics lab, machine tool technology lab, welding shop, hydraulics/pneumatics laboratories)
- Computer interactive training programs and materials (to be purchased or developed)
- Maintenance apprenticeship program costs in accordance with the Budget and Training Plan previously described
- Raw materials, parts and practice products for training purposes to the extent dedicated exclusively to training
- Training related foreign travel (including related expenses, e.g., at other Nissan sites, incurred by Nissan or its contractors in connection with the creation of New Direct Jobs for the Delta II Project for hourly employees, first level supervisors, managers, engineers, support staff, trainers, vendors)
- Training related domestic travel (including related expenses, e.g., at other Nissan sites, incurred by Nissan or its contractors in connection with the creation of New Direct Jobs at the Project Site for hourly employees, first level supervisors, managers, engineers support staff, trainers, vendors)

Attachment 4 Continued

- Other travel expenses incurred by Nissan or its contractors in connection with the creation of New Direct Jobs at the Project Site, to the extent related to recruitment, employment and training, including the following:
 - Travel to set up training facilities
 - Travel to set up/evaluate training programs
 - Travel to trainers
 - Travel for trainee training (domestic/foreign)
- Panel joint check (trial units) and other trial units to the extent such units are devoted to training and do not subsequently become part of a saleable product
- Allocated portion of affiliate launch assistance support (including travel, living expenses and compensation) to the extent such support is devoted to training
- Long-term expatriate training (including reasonable moving, storage, travel and living expenses) not to exceed six months without prior State approval; provided, however, that upon completing such training Nissan shall not assign such trainee to any facility other than the Delta I Project or Delta II Project for a period of twelve months. Such reimbursement shall be paid in accordance with a certification procedure to be established, which procedure shall be mutually acceptable to Nissan and the State.
- Other training expenses approved by MDA
- Nissan and the State agree that for one-on-one (shadow) on-the-job training, Nissan shall be entitled to reimbursement of the trainee's compensation and an allocated portion of the trainer's compensation
- All travel expenses provided for hereunder shall be reasonable and in accordance with Nissan's policies existing as of the date hereof

EXHIBIT C
TRAINING PERIODS

Job Title	Reimbursement Period
Production technicians	
• Trainers, leaders and individuals requiring specialized training (e.g., e-coat and phosphate tenders)	Up to 90 Work Days
• Other production technicians	Up to 60 Work Days
Maintenance technicians	Up to 90 Work Days
Area managers	Up to 90 Work Days
Other salaried and management positions	Up to 90 Work Days
Skilled contract positions	Up to 90 Work Days
Semi-skilled contract positions	Up to 90 Work Days
Unskilled contract positions	Up to 30 Work Days

Attachment 6

NISSAN TRAINING REIMBURSEMENT 11/00 THOROUGH 9/30/03 REVISED 12/2/03

ORG	HR TRAINING Description	PROJECT CODE (TR)	Total By Description	Sub-Total	% OF TOTAL
TR42	Prog Development				
	Course Dev & Printing	250	\$1,631,585.81		
	Misc		\$0.00		
		Prog Development		\$1,631,585.81	3.18%
TRH3	Other				
	Full Time Clerical	140	\$11,984.86		
	Operating Supplies	220	\$844,780.16		
	Foreign Language Training	230	\$6,790.06		
	Vendor Training	260	\$8,415.00		
	Security/Training Facility	300	\$8,506.33		
	Video Training	330	\$3,781.24		
	Overtime Staff	340	\$0.00		
	Assess Supervisors Candidates	350	\$136,693.91		
	Translations/Translators	360	\$60,913.55		
	Train the Trainer	370	\$3,003,211.84		
	Specialized Classroom	390	\$53,305.79		
	Computer Interactive Trng	400	\$0.00		
	Production Tech Program	415	\$14,168,093.28		
	Practice Parts	420	\$1,011,226.49		
	Raw Materials	430	\$16,272.65		
	Foreign Travel	440	\$3,374,492.53		
	Domestic Travel	450	\$4,026,034.43		
	Affiliate Launch Assist Support	480	\$1,507,548.21		
	Long-Term Expatriate Training	490	\$17,077.46		
	Trainer Wages	510	\$3,642,906.27		
	Misc		\$0.00		
		Other		\$31,902,034.06	62.22%

NISSAN TRAINING REIMBURSEMENT 11/00 THOROUGH 9/30/03 REVISED 12/2/03

ORG	HR TRAINING Description	PROJECT CODE (TR)	Total By Description	Sub-Total	% OF TOTAL
TRR1	Pre-Employment				
	Full Time Prog Coord	100	\$464,517.81		
	Contract Instructor Pay	110	\$1,136,943.76		
	In-House Instructor Salary	120	\$1,820.00		
	Pre-Employ Training Fixtures	320	\$339,533.28		
	Misc		\$0.00		
		Pre-Employment		\$1,942,814.85	3.79%
TRT2	Post-Employment				
	Full Time Prog Coord	100	\$0.00		
	Contract Instructor Pay	110	\$1,310,349.28		
	In-House Instructor Salary	120	-\$11,738.22		
	Shop Floor OJT Instructor Pay	130	\$9,658,347.20		
	Mtc Apprentice Prog	410	\$2,755,172.52		
	Relocation/Temp Living	460	\$2,080,563.68		
	Panel Joint Check	470	\$0.00		
	Misc		\$0.00		
		Post-Employment		\$15,792,694.46	30.80%
				SUB TOTAL	<u>\$51,269,129.18</u>
				GRAND TOTAL	\$51,269,129.18

Attachment 7

OSA Monitoring Site Visit Worksheet

Name of monitor/reviewer: _____

Date: _____

Project Number: _____

Project Name: _____

Site(s) visited: _____

County/Counties: _____

Location: _____

Purpose: _____

Activities: _____

Site contact(s): _____

Site mailing address: _____

Site telephone number: _____

Site e-mail address: _____

Findings: _____

Recommended action(s): _____

Number of contact hours: _____