

Site Infrastructure Development Fund:

Annual Report

Fiscal Year 2010-2011

Site Infrastructure Development Fund

This section of the report provides information related to the Site Infrastructure Development Fund (the “SIDF”), pursuant to N.C. Gen. Stat. § 143B-437.02(k).

The SIDF’s purpose is to stimulate economic activity and to create new jobs in the State. To be eligible for a SIDF grant, a business must invest at least \$100,000,000 of private funds in site development for a project that will employ at least 100 new employees. The Economic Investment Committee (the “Committee”) is charged with making recommendations for assistance under the program, to the Secretary of Commerce, after evaluating an applicant’s eligibility and the desirability of a project, in accordance with the factors enumerated in the Criteria for Operation and Implementation of Site Infrastructure Development Fund (the “SIDF Criteria”), adopted on January 29, 2004, pursuant to N.C. Gen. Stat. § 143B-437.02(h)(i).

On April 6, 2004, after making the statutorily required findings, the Committee recommended that SIDF assistance be provided to Merck & Co, Inc.¹ for a project involving the development of a vaccine manufacturing plant on an approximately 256-acre site in Durham County, in the amount of \$24,000,000 (the amount that was appropriated for the SIDF by the General Assembly, for the 2003-2004 fiscal year). No additional funding has been appropriated for the SIDF, and therefore, no SIDF grants were awarded in fiscal year 2010-2011.

In making its recommendation, the Committee conducted an extensive review and cost-benefit analysis of the project. This analysis showed a very high positive return on this investment for North Carolina:

- Total state income impacts are \$118 million annually when the project is complete.
- Cumulative gross income impacts to the State by 2018 were projected to amount to \$1.4 billion and to reach over \$2 billion by year 2026.
- Cumulative gross state revenue impact by 2018 amounted to \$66 million and \$93.3 million by year 2026.
- Cumulative state net revenue impact by the end of 12 years was expected to be \$20.2 million and \$44.5 million over 20 years.
- At the time of the award, the Company employed 530 employees in North Carolina and would add an additional 200 new jobs.
- Total new direct, indirect, and induced employment attributable to the project were projected to range from a high of 1,380 in 2005 (during construction) to 560 under full employment in 2009.
- Biomanufacturing is one of the key industrial manufacturing sectors targeted for growth by the Department and the Economic Development Board’s Strategic Plan.
- The biomanufacturing industry is projected to be a high-wage, high growth industry creating stable jobs and requiring a skilled and educated workforce.
- The project complements the state’s major existing biotechnology industry cluster, and can help transition the state’s economy away from reliance on low-wage industries vulnerable to free trade.
- Merck has estimated that, including potential future expansions at the site, it could invest up to \$900 million and create a total of 600 jobs.

¹ In November 2009, Merck & Co., Inc and Schering-Plough Corporation were merged, as a result of which Merck & Co.’s name changed to Merck Sharpe & Dohme Corp., which continues to hold the assets of the Durham facility and employ the workers with respect to which the SIDF assistance was provided.

- All of the required permits for the facility would be minor permits, quickly obtained. The facility would be located in an industrial area, its site plan would minimize wetland and stream impacts, and its emissions would be minor; little or no environmental impact would be expected.

Under the terms of the award, Merck was required to retain 472 jobs, create a target number of 200 new jobs, with a required job minimum of 150 by 2009, at an average annual wage of \$51,750, and invest \$218,000,000, and to retain the jobs through 2018.

Merck met all requirements to receive full disbursement (\$24 million) in fiscal year 2008-2009. Given the State's fiscal concerns, in February 2009, the EIC requested, and Merck agreed, to receive disbursements over four quarters, commencing in Sept. 2009. Thus, \$6 million was disbursed to Merck at the end of each of the following months: Sept. 2009, Dec. 2009, March 2010, and June 2010. No further payments are due to Merck.

For the 2010 calendar year, Merck reported a total of 1712 employees, including 450 net new jobs at an average annual wage of \$78,075, and total investment of \$314 million.

The SIDF assistance is structured in the form of a forgivable loan, whereby Merck must satisfy annual performance criteria, including retaining the existing and new jobs until 2018, in order to retain the full amount disbursed. If Merck maintains annual compliance, 10% of the \$24 million will be forgiven each year from 2010-2019 (following demonstration of annual compliance for calendar years 2009-2018). Repayment obligations are secured by a deed of trust on the project property. In accordance with the loan forgiveness schedule, based on Merck's compliance with calendar year 2009 and 2010 performance requirements, a total of 20% (or \$4,800,000) has been forgiven.

Loan Repayment and Forgiveness Schedule

COLUMN 1	COLUMN 2	COLUMN 3	COLUMN 4	COLUMN 5	COLUMN 6	COLUMN 7
Grant Year (<i>Forgiveness after assessment of timely submitted report in following year, if in compliance</i>)	Min. Jobs	Principal Payment Due by Company on Default	Percentage of Balance Repayable	Amount of Loan Forgiveness if No Default	Percentage of Balance Forgiven	Current Status Amount Forgiven (Cumulative)
2004	0	\$24 M	100% + interest	\$0	0%	
2005	0	\$24M	100% + interest	\$0	0%	
2006	0	\$24M	100% + interest	\$0	0%	
2007	49	\$24M	100% + interest	\$0	0%	
2008	64	\$24M	100% + interest	\$0	0%	
2009	150	\$24M	100% + interest	\$2.4M	10%	\$2.4M
2010	150	\$21.6M	90% + interest	\$4.8M	20%	\$4.8M
2011	150	\$19.2M	80% + interest	\$7.2M	30%	
2012	150	\$16.8M	70% + interest	\$9.6M	40%	
2013	150	\$14.4M	60% + interest	\$12M	50%	
2014	150	\$12M	50% + interest	\$14.4M	60%	
2015	150	\$9.6M	40% + interest	\$16.8M	70%	
2016	150	\$7.2M	30% + interest	\$19.2M	80%	
2017	150	\$4.8M	20% + interest	\$21.6M	90%	
2018	150	\$2.4M	10% + interest	\$24.0M	100%	