

ADOPTED MINUTES

A meeting of the Michigan Economic Growth Authority (MEGA) was held at the Michigan Economic Development Corporation, 201 N. Washington Square, 4th Floor, Lansing, Michigan on January 11, 2001 at 9:00 a.m.

Members Present:

Beth Chappell
Craig DeNooyer
Sarah Deson-Fried
Mary Lannoye (acting for and on behalf of Janet Phipps, authorization attached)
Doug Rothwell
Tim Ward

Members Absent:

Mark Murray
Greg Rosine

Others Present:

Karen Ammarman, MEGA, MEDC
Peter Anastor, MEGA, MEDC
Kathy Blake, Senior Vice President, Business Development, MEDC
Tino Breithaupt, Global Business Development, MEDC
Linda Dankoff, MEGA, MEDC
John Freshley, Statprobe, Inc.
Stuart Hall, Statprobe, Inc.
Valerie Hoag, MEDC
Jennifer Kopp, Communications, MEDC
Amy Lane, Crain's Detroit Business
Lori LaPerriere, MEGA, MEDC
Kathy McMahon, Communications, MEDC
Jim Paquet, MEGA, MEDC
Ellen Ross, MEDC
Tom Schimpf, Attorney General
Lora Schwab, Statprobe, Inc.
Vern Taylor, Brownfield Redevelopment Manager, MEDC

Call to Order

Chairperson Rothwell called the meeting to order at 9:14 a.m.

Public Comment

There were no comments from the public.

PROPOSED MINUTES

A meeting of the Michigan Economic Growth Authority (MEGA) was held at the Michigan Economic Development Corporation, 201 N. Washington Square, 4th Floor, Lansing, Michigan on January 11, 2001 at 9:00 a.m.

Members Present:

Beth Chappell
Craig DeNooyer
Sarah Deson-Fried
Mary Lannoye (acting for and on behalf of Janet Phipps, authorization attached)
Doug Rothwell
Tim Ward

Members Absent:

Mark Murray
Greg Rosine

Others Present:

Karen Ammarman, MEGA, MEDC
Peter Anastor, MEGA, MEDC
Kathy Blake, Senior Vice President, Business Development, MEDC
Tino Breithaupt, Global Business Development, MEDC
Linda Dankoff, MEGA, MEDC
John Freshley, Statprobe, Inc.
Stuart Hall, Statprobe, Inc.
Valerie Hoag, MEDC
Jennifer Kopp, Communications, MEDC
Amy Lane, Crain's Detroit Business
Lori LaPerriere, MEGA, MEDC
Kathy McMahon, Communications, MEDC
Jim Paquet, MEGA, MEDC
Ellen Ross, MEDC
Tom Schimpf, Attorney General
Lora Schwab, Statprobe, Inc.
Vern Taylor, Brownfield Redevelopment Manager, MEDC

Call to Order

Chairperson Rothwell called the meeting to order at 9:14 a.m.

Public Comment

There were no comments from the public.

Action Item:

Stratprobe, Inc.
3885 Research Park Drive
Ann Arbor, MI 48103

Kathy Blake gave an introduction to this project noting that the average weekly wage had been revised since the mailing. She directed the Board's attention to the revised resolution. The corrected wage figure is \$1,100/week. All the Board's materials, including the REMI have been revised to reflect this amount.

Chairman Rothwell, introducing a new format for the presentation of deals, asked the company's representative to tell the Board about its proposed project.

Lora Schwab presented a profile of Statprobe, Inc. The company does research, on a contract basis, for the pharmaceutical, medical device, and biotech industries. It is headquartered in Ann Arbor and provides data management, data analysis, and statistical reporting services. At present, Statprobe, Inc. services 112 companies, and its revenues are growing at a rate of 25% annually.

The type of work performed by Statprobe, Inc. requires state of the art software and hardware to manage enormous quantities of data. An example is the company's management of a national cardiovascular therapy registry that tracks data from over 1 million patients and provides doctors with reports on the results and side effects of various drugs.

Statprobe has a highly educated workforce. A science background is required of all staff, 80% of whom are degreed, and 30% of whom have advanced degrees. There are 300 employees in the company.

The project involves moving to a new facility which will accommodate the company's growth, and investing in Oracle Clinical software which is the standard in the industry.

Kathy Blake presented the following additional information. STATPROBE is planning for its next phase of growth and needs to move its headquarters and growing operations staff into a new location. The company plans to lease 35,000 square feet of built-to-suit space within the State Street Business Park in Pittsfield Township (Ann Arbor). It anticipates investing \$6.6 million in the project, including \$5.6 million in capitalized lease costs and \$900,000 in new machinery, equipment and computers.

STATPROBE will hire 48 people within a five-year period, including 14 new employees in the first year of operation. The new positions would have an average weekly wage of \$1,100, plus a full benefit package. STATPROBE would

begin construction immediately and expects work to be completed by June 2001, with start-up of the facility planned for July 2001.

Using REMI software, we estimate this facility will generate a total of 72 jobs in the state by the year 2005. Net state government revenues through the year 2005, would be increased by \$1,082,000 (2000 dollars) due to the presence of this facility.

STATPROBE has experienced rapid growth since the company was founded twelve years ago in Ann Arbor. In 1997, the company opened its first regional office in San Diego and has since expanded to five additional offices around the country.

STATPROBE's plans for its continued growth require that it locate near large biotech and pharmaceutical industry clusters. In addition, the company requires an appropriate labor pool proximity to prospective and existing customers. With this in mind, the decision for the company is not whether to continue operations in Ann Arbor, but how aggressively to grow the operations here or elsewhere.

The addition of tax incentives will help to offset the costs of doing business in Michigan and have a significant impact of the decision-making process of future growth.

The company is working with Pittsfield Township, the Washtenaw County Road Commission and the Washtenaw Development Council to secure road and infrastructure improvements. These improvements include engineering work and the installation of a traffic light and turn lanes at the State/Morgan intersection. The estimated value of these road improvements is \$275,000.

Recommendation:

The Michigan Economic Development Corporation recommends a high-technology employment credit of 100 percent for two years and 50 percent for the following three years for 48 net new jobs, and a business activity credit of 50 percent for five years.

Board Discussion:

Tim Ward presented the report of the Executive Committee to the Board. The major issue for this company is to stay within close to its clients. There are clusters of pharmaceutical companies around the country that could satisfy that need. Locating in Lexington, Kentucky would meet that need and be cheaper.

Beth Chappell commented that these were just the types of jobs we were hoping to incent with the high-tech MEGA.

Chairman Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2001-001 awarding a MEGA tax credit to Statprobe, Inc. be adopted.

Action Item:

Speareflex Block Work Plan
Shakespeare, LLC and the Kalamazoo Brownfield Redevelopment Authority

Vern Taylor presented this project to the Board.

The applicant, Kalamazoo Brownfield Redevelopment Authority, is requesting approval of a \$311,542 request to develop property in the downtown district of the city which has two vacant dilapidated buildings. The project meets the eligibility standards in the statute.

The project seeks DEQ approval of certain environmental activities and requests MEGA approval for: a) restoration of a section of the Arcadia Creek Tunnel Roof, b) demolition of underground structures and subterranean rooms, c) lead paint removal; and d) excavation and grading to accommodate new structures, storm water, public parking and preparation for landscaping.

The request for the restoration of the Arcadia Creek Tunnel roof does not appear to be eligible. It is located on an adjacent block rather than the eligible parcel.

DEQ has used funds to demolish all but the two remaining structures on this block. The work plan calls for filling in with sand and covering with gravel and asphalt. Covering the area with gravel and asphalt after the removal of debris, does not appear to be an "eligible activity" for tax increment financing (TIF). The work plan lacks sufficient detail to allow for a final determination regarding eligibility.

Excavating and grading is requested to prepare the site for new construction, storm sewers, public parking and landscaping. These activities appear to be "site improvements". The work plan does not provide sufficient information to determine the eligibility of these activities for TIF.

The total cost of the proposed activities exceed the \$300,000 cap on the tax capture for this project established in the development agreement submitted with the work plan. The work plan does not identify which of the eligible activities are to be covered by the \$300,000.

The brownfield plan does not separately identify the project activities and costs for each parcel.

The developers of this project are also seeking Brownfield Redevelopment SBT Credits pursuant to P.A. 143 of 2000 and property tax abatements pursuant to P.A. 328.

Recommendation:

The Kalamazoo Brownfield Redevelopment Authority should be advised that the Speareflex Work Plan lacks sufficient information for the Michigan Economic Growth Authority to respond pursuant to P.A. 145 of 2000. The following changes and additions to the work plan are necessary before the work plan can be reconsidered:

1. Provide a separate work plan for each parcel.
2. Provide additional detail through narrative, maps and drawings, to better illustrate the need for the proposed eligible activities and the location, nature and scope of the proposed eligible activities.
3. The work plan request should indicate the eligible activities for which approval is being sought within the \$300,000 limitation in the development agreement.
4. Eligible activities that have commenced prior to MEGA approval must be deleted from the work plan before it is resubmitted for MEGA approval.

Board Discussion:

Doug Rothwell questioned the proposed use of the property. Vern Taylor replied that there would be a 4-story building and a 1-story building to lease out as office space.

Craig DeNooyer questioned why this particular project was presented since there was considerable information lacking.

Vern Taylor responded that this particular project appeared to be driven by the developer and consultant and it was quite apparent that they did not understand the intent of the statute. The project was presented to the Board because of statutory requirements that the MEGA respond to work plan approval requests within 60 days of receipt of a request.

Chairman Rothwell suggested that the Board agree to return the application requesting more information.

Chairman Rothwell asked if there were any further questions from the Board. There being none, it was moved, supported and carried that Resolution 2001-002 requesting more information from Speareflex Block, Kalamazoo be adopted.

Brownfield Credit Discussion

Tim Ward began by noting that the brownfield incentives were a new program and that a focus of the Executive Committee's discussion had centered around whether the work plan approvals should be treated as an entitlement, as some might infer from the statutory language, or as subject to the discretion of the MEGA Board. He added that there had also been questions as to whether credits or other incentives should be awarded for what were essentially speculative projects.

Craig DeNooyer questioned the wisdom of subsidizing office space developments such as the one the Board had just reviewed. He expressed a preference for providing incentives to projects that would create the jobs and commerce that would lead to office and retail developments.

Doug Rothwell responded that there appears to be a misunderstanding regarding what is eligible. Our focus should be on public benefit flowing from proposed projects. In the past the MEGA has concentrated on "real" deals that would create a substantial number of permanent jobs. There are only 15 SBT credits to be awarded annually and the premise behind economic development should be to address gaps in the market. Although there is no *per se* "but for" requirement, the board still has an obligation to determine whether incentives are needed, and to what extent, for a particular project, especially when resources are limited. He also expressed his concern that the number of work plans that could be approved, and therefore the call on future school tax revenues, was unlimited. As a result, he felt the Board had a fiduciary responsibility to be selective.

Beth Chappell questioned what steps the Board might follow in the future. She suggested that the Board might focus on more specific job creation projects.

Doug Rothwell indicated that the Board has some discretion, particularly with the SBT credits, which were subject to multiple criteria that could be applied with some flexibility. On the other hand, he indicated that the work plan approval process was decidedly inflexible and might require legislative changes.

Mary Lannoye asked about the Board's ability to deny a work plan approval. Tom Schimpf responded that the Board can deny work plans but only within a narrow range defined in the statute. Discretion is limited to determining whether planned investments are necessary, sufficient, and reasonable in cost.

Tom Schimpf suggested that today's approach, requesting more information, was one of the options explicitly provided for in the statute. It had the advantage of keeping the door open until the Board could render a more qualitative decision down the road. The applicant would be free to resubmit the application if it desired.

Doug Rothwell stated that it is being suggested that the Board not deny the project now.

Tom Schimpf responded, that regarding the Speareflex, Kalamazoo project, the Board was not presented with enough information to make a decision. The Board should wait for a submission of additional information. Returning the application with a request for more information would stop the 60-day clock. A resubmission would start another 60-day review period.

Doug Rothwell stated that there is a large variance in the understanding of the statute and the Board must avoid giving the Brownfield Redevelopment Authorities a basis for contesting the decisions made.

Tom Schimpf added that in the present instance, there was a clear statutory procedure that the Board could rely on. On some of the other issues raised, the statute is not as explicit. Clarification is needed and Board members should present their concerns in this regard.

Doug Rothwell concluded the discussion by indicating that the MEDC would seek changes in the law. In the interim, we would try and get the message out to the Brownfield Authorities that we are working to clarify the MEGA's role and that it would be appreciated if they would stop sending in applications until these legal and policy issues could be resolved.

Conflict of Interest

On the subject of conflict of interest which had been discussed briefly at a prior meeting, Tom Schimpf requested that Board members advise either himself or Jim Paquet, prior to the meeting, if they owned stock in a company which had a project before the Board.

Meeting adjourned at 10:17 a.m.

I:\private\edfpublic\mega\minutes
1/11/001:36