

ADOPTED MINUTES

A meeting of the Michigan Economic Growth Authority (MEGA) was held on the 4th Floor of the Victor Office Center, at 201 North Washington Square, Lansing, Michigan on January 25, 2000 at 10:00 a.m.

Members Present:

Doug Rothwell
David Porteous
Beth Chappell (via phone)
Phil Kazmierski (acting for and on behalf of James R. DeSana)
James Garavaglia
John McCormack (via phone)
Mark A. Murray

Members Absent:

Mary Lannoye

Others Present:

Dawn E. Baetsen, Director, National Business Development, Michigan Economic Development Corporation (MEDC)
Jill Bland, Business Representative, Southwest Michigan First
Marsha Brand, Tax Manager, New Venture Gear, Inc.
Nick Clementi, CEO-Contempo Colors, Consultant-American Greetings
Scott Crawford, Plant Manager, American Greetings
Linda Dankoff, MEGA Specialist, MEDC
Norbert Dieterle, Controller, Behr Industries Corporation
Jim Donaldson, VP, Michigan Business Development, MEDC
Cristine Dreese, Recording Secretary to the MEGA Board, MEDC
David Jeup, VP, Global Business Development, MEDC
Jeff Kaczmarek, Senior VP, Business Services, MEDC
Birget Klohs, President, The Right Place Program
Jennifer Kopp, Communications, MEDC
Maureen Krauss, Senior Representative, Oakland County
Penny Launstein, Account Manager, MEDC
Jim Maynard, Director-Human Resources, Behr Industries Corporation
Brian McBroom, Community Development Director, City of Auburn Hills
Kathleen McMahon, Communications Director, MEDC
Antonio Mitchell, Business Assistance Specialist, City of Kalamazoo
Jim Paquet, Secretary to the MEGA Board, MEDC
Tom Schimpf, Assistant Attorney General, Michigan Attorney General's Office
Sharon Steffeno, Supervisor, Alpine Township, Kent County
Tom Tarleton, Account Manager, MEDC
Doug Voshell, Account Manager, MEDC

Call to Order

The meeting was called to order by Chairperson Rothwell at 10:05 a.m.

Adoption of the Minutes from the December 21, 1999 Meeting

It was moved, supported, and carried that the minutes from the December 21, 1999 meeting be adopted.

Public Comment

There were no comments from the public.

Prior to commencing with the agenda items, Chairperson Rothwell asked individuals in the room to introduce themselves and their affiliations.

Action Items

***American Greetings Corporation
One American Road
Cleveland, Ohio 44144***

Chairperson Rothwell introduced Dawn Baetsen from the MEDC and asked her to present the project. Ms. Baetsen summarized the key points from the briefing memo.

Project Description

American Greetings Corporation was founded in 1906 and is the world's largest publicly held creator, manufacturer and distributor of social expression products. These include greeting cards, party goods, candles, stationery and mylar balloons. American Greetings is headquartered in Cleveland, Ohio and in 1999 bought Contempo Colors, a Kalamazoo-based company that was in the same line of business.

Due to increased orders for two product lines, American Greetings finds it necessary to expand current manufacturing capacity. The company is evaluating putting this increased production in either the newly-acquired Kalamazoo facility or at another existing facility in Corbin, Kentucky.

An expansion of the Kalamazoo facility will require the addition of 200 net new employees over a three-year period with an average weekly wage of \$460 (\$11.50 per hour). Construction on the building would commence in early March, 2000 and would be completed by the end of September, 2000. Equipment installation would be complete by July, 2001.

The economic analysis done by the University of Michigan estimates this facility will generate a total of 344 jobs in the state by the year 2010. Total state government revenues through the year 2010, net of MEGA costs, would be increased by \$10,699,000 due to the presence of the American Greetings facility.

The company has undertaken a comprehensive cost analysis between Michigan and Kentucky. Based on that information, the cost disadvantage for American Greetings to locate in Michigan rather than Corbin, Kentucky ranges from \$8.9 million in the first year to a savings of \$800,000 annually, starting in year three, over the term of the incentive. These differentials are attributable to building renovations required at the Michigan facility, as well as the need to purchase more equipment if production is in Michigan. The existing plant in Corbin, Kentucky has sufficient capacity to produce these product lines without any building costs and with less expenditures for equipment.

The state of Michigan will provide American Greetings with a 100 percent abatement of the six-mill State Education Tax estimated to be worth approximately \$489,877 over the term of the incentive. In addition, the state will offer job training assistance of \$1,000 per job for up to 200 net new jobs and an additional \$200,000 in training for 294 existing employees, for a total of up to \$400,000 in job training assistance.

The city of Kalamazoo will provide a 50 percent property tax abatement for a period of 12 years on real property and 6 years on personal property, estimated to be worth approximately \$2,499,352.

In analyzing the costs, it was found that Michigan will actually be less expensive over the long-term due to lower wage rates in Michigan than in Kentucky. However, the company's primary concern is the up-front costs associated with expanding the Michigan operation, which over the first three years will exceed the costs of putting the expansion in Kentucky by \$13.5 million. American Greetings would like to put the project in Michigan if Michigan can alleviate some of the company's initial capital costs.

Staff Recommendation

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 200 net new jobs for a period of 10 years and a business activity credit of 50 percent for a period of 10 years.

Board Members' Discussion

Vice Chairperson Porteous gave the report of the Executive Committee. He stated that so many times when a larger firm such as American Greetings buys a smaller company like Contempo Colors, the acquired company is closed. In this case, it is a win-win situation because American Greetings is not only retaining the existing jobs but will be expanding and adding more jobs.

One way this project is unique, is that over the life of the project it is less expensive for American Greetings to locate in Michigan; usually the reverse is true. With creative structuring, staff was able to close the gap in the first ten years, especially the big gap in the first year between locating in Michigan versus Kentucky.

Board Member Kazmierski asked if there was a lot of equipment that needed to be purchased. The answer was yes there is a lot of new equipment that needs to be purchased if the project is located here and there is additional equipment that needs to be relocated to Michigan from Kentucky.

Mr. Porteous stated to the representatives of the project that it is critical to the MEGA Board that the local community step forward. In this case, Kalamazoo had provided an abatement for 12 years. Without that, the MEGA Board would have been reluctant to move forward with the project.

Chairperson Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported, and carried that Resolution 2000-001 awarding tax credits to American Greetings Corporation be adopted.

***Behr Industries Corporation
1020 7 Mile Road
Comstock Park, Michigan 49321***

Chairperson Rothwell asked Jim Donaldson to present the project. Mr. Donaldson summarized the key points from the briefing memo.

Project Description

Behr Industries Corporation is a manufacturer of high quality wood interior trim components to the automotive OEMs and their major Tier 1 suppliers. Behr Industries Corporation is a subsidiary of Erwin Behr Automotive GmgH, which in turn is part of the Erwin Behr Group GmbH & Co. KG, a German company founded in 1912. Behr Industries Corporation currently has 423 employees in Michigan.

Due to an increase in orders from U.S. OEM facilities, the company needs to expand its manufacturing capability. Behr has a choice of increasing capacity at its current facility in Alpine Township or establishing a second manufacturing facility in southeast Alabama, at a location close to some of its major customers.

Behr has determined that it could handle this new business at its Michigan facility with a capital investment of \$3 million and the hiring of 341 new workers. The average weekly wage for new workers would be \$463, plus a benefit package totaling approximately 25 percent of wages. If the expansion occurs in Michigan, the company would need to reorganize the existing shop floor layout to accommodate the introduction of new

equipment. The equipment would arrive in April or May of 2000 and would be in full production by the end of June 2000.

The economic analysis done by the University of Michigan estimates this facility will generate a total of 528 jobs in the state by the year 2007. Total state government revenues through the year 2007, net of MEGA costs, would be increased by \$9,688,000 due to the presence of the Behr Industries Corporation facility.

The company has undertaken a comprehensive cost analysis between Michigan and Chilton County, Alabama. The cost disadvantage for Behr Industries to expand in Michigan rather than Alabama ranges between \$1,400,000 and \$1,200,000 annually. This cost differential is primarily attributable to lower wages, lower taxes, and generous incentives in Alabama.

The state of Michigan will provide Behr Industries with a 100 percent abatement of the six-mill State Education Tax estimated to be worth approximately \$56,628 over the term of the incentive. In addition, the state will offer job training assistance of \$800 per job for up to 341 net new jobs, for a total of up to \$272,800.

Alpine Township will provide a 50 percent property tax abatement for a period of 12 years. The estimated value of this incentive is \$168,826.

A significant cost disadvantage exists for locating the project in Michigan rather than Alabama. The Alabama option is attractive to the company because Behr's two largest customers, Mercedes and BMW, are located in Alabama and South Carolina. A Michigan location would be advantageous in order to gain additional orders from DaimlerChrysler, General Motors, and Ford. However, the company cannot justify the additional costs of expanding in Michigan without the state assistance offered by MEGA.

Staff Recommendation

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 341 net new jobs for a period of seven years and 75 percent for a period of one year, and a business activity credit of 100 percent for a period of seven years.

Board Members' Discussion

Vice Chairperson Porteous gave the report of the Executive Committee. He stated that the importance of the project is that it broadens the industrial base for the automotive industry and for Grand Rapids. Mr. Porteous stated that going head-to-head with Alabama has always been a big challenge for the State because of Alabama's lower wages and aggressive incentives. This project was no different in that respect. He concluded by stating that the recommendation of staff for this particular project was very appropriate and the Executive Committee was recommending the project to the full Board.

Mr. Porteous repeated that the MEGA Board looks to the community to support a project and congratulated Alpine Township.

Mr. Porteous asked which vehicles Behr would provide real wood trim for. Mr. Dieterle responded that their wood trim would be used in the Cadillac Seville and El Dorado, the Lincoln Navigator and Continental, the BMW Z-3 and X-5, the Mercedes M Class, the DaimlerChrysler 300M and Jeep Grand Cherokee and even one over-the-road truck manufactured by Freightliner.

Chairperson Rothwell asked if there were any questions from the Board. There being no further questions, it was moved, supported, and carried that Resolution 2000-002 awarding tax credits to Behr Industries Corporation be adopted.

***New Venture Gear, Inc.
1650 Research Drive, Suite 300
Troy, Michigan 48083***

Chairperson Rothwell asked Jim Donaldson to present the project. Mr. Donaldson summarized the key points from the briefing memo.

Project Description

New Venture Gear, Inc., is a joint venture between DaimlerChrysler (64 percent interest) and General Motors (36 percent interest) and manufactures drive-line components, including manual transmissions, manual transaxles, transfer cases and other components for sale to DaimlerChrysler and General Motors as well as to non-affiliated customers.

New Venture Gear, Inc. proposes to construct a new facility in which to house its corporate offices and research and development operations in Auburn Hills, Michigan or Syracuse, New York. Currently the company is leasing space in four buildings in Troy. The new facility will enable the company to be more efficient and will highlight the company's image as a world-class automotive supplier.

Capital investment for the project will include \$10 million for lease costs and \$7.1 million in new equipment. Construction will begin as early as March 2000, with anticipated completion in late February, 2001. The company will transfer 180 existing Michigan workers into the facility and hire 92 new employees by 2003. The jobs will pay an average weekly wage of \$1,501 and provide a benefit package equal to approximately 25 percent of wages.

The economic analysis done by the University of Michigan estimates the facility will generate a total of 159 jobs in the state by the year 2010. Total state government revenues through the year 2010, net of MEGA costs, would be increased by \$7,162,000.

due to the presence of the New Venture Gear, Inc. facility.

The company has undertaken a comprehensive cost analysis between Michigan and New York. The cost disadvantage for New Venture Gear, Inc. to establish its new headquarters and research and development center in Auburn Hills rather than Syracuse, ranges from \$1 million to \$1.3 million annually over the term of the incentive. The most significant factor in this differential is taxes. The state of New York will eliminate all the company's taxes, including corporate and property taxes, for 10 years. The taxes currently being paid to Michigan by the company would also be significantly reduced if the company moves its operation to New York. The company received an attractive incentive package to expand in Syracuse.

The State of Michigan will provide New Venture Gear, Inc. with job training assistance of \$800 per job for up to 92 net new jobs, for a total of up to \$73,600. The company is not eligible for property tax abatements. The city of Auburn Hills will provide the company with a water line extension to serve the company's proposed site at an estimated cost of \$200,000-\$250,000.

The company already has significant operations in Syracuse. Only 180 of the company's 5,429 employees are currently located in Michigan. In addition to the annual cost differential identified above, it would be reasonable for the company to move its research and development functions closer to its manufacturing hub.

The company has cited access to a larger pool of engineering talent, proximity to major customers, and availability of superior automotive-related technical training as reasons why it would like to keep the headquarters and research and development operations in Michigan if part of this cost gap can be bridged.

Staff Recommendation

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 92 net new jobs for a period of 10 years.

Board Members' Discussion

Vice Chairperson Porteous gave the report of the Executive Committee. He stated that the project made a classic case for why we need the MEGA. New York had put together a wonderful incentive package and it was very clear that Michigan would lose this project if not for our MEGA program. Mr. Porteous stated that we would lose extremely high paying jobs as well as new hires if the project were lost to New York. The Executive Committee was very comfortable with staff's recommendation.

Chairperson Rothwell asked for questions from the Board. Board Member Garavaglia asked where the 90 new workers for the project would be coming from. Marsha Brand answered that the new workers would be research and development-type individuals and would be hired from the local communities and Michigan universities. Board Member

McCormack asked about the \$7 million investment in new equipment. Ms. Brand responded that they would be expanding the research facility by about one-third and needed to purchase new hi-tech equipment as well as update some of the existing equipment.

Chairperson Rothwell asked if there were any further questions. There being none, it was moved, supported, and carried that Resolution 2000-003 awarding tax credits to New Venture Gear, Inc., be adopted.

MEGA Fees

Chairperson Rothwell stated that the proposal had been presented to the Executive Committee. He stated that the MEDC is trying to make its programs self-supporting. Currently, the MEDC spends approximately \$450,000 per year for staff and REMI analysis associated with the MEGA program. The proposed structure involves two fees. First, it increases the application fee from \$500 to \$5,000. Second, an administrative fee of 1/2 of 1 percent would be charged to a company when the MEGA credit was turned on. Someone asked what the average fee to the company would be. Based on past MEGA awards, staff estimated the average cost of the two fees would be approximately \$30,000. Board Member McCormack asked if this was competitive with other states. Chairperson Rothwell answered that it was very competitive to other states. Board Member Murray asked if the fee was annual. Chairperson Rothwell answered that it would be a one-time application fee and a one-time administration fee when the credit was turned on. Board Member Murray asked whether the administration fee should be capped. Chairperson Rothwell made a motion to approve the resolution subject to a \$100,000 cap on the administration fee.

Chairperson Rothwell asked if there were any further questions. There being none, his motion was supported and carried that Resolution 2000-004 be adopted immediately implementing the new MEGA Fees.

The meeting was adjourned by Chairperson Rothwell at 11:05 a.m.