

PROPOSED MINUTES

A rescheduled 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 November 17, 1998 at 10:00 a.m.

Members Present:

Al Aceves (acting for and on behalf of Doug Rothwell)
David Porteous
Beth Chappell (via phone)
Phil Kazmierski (acting for and on behalf of James R. DeSana)
James Garavaglia (via phone)
Mary Lannoye (acting for and on behalf of Janet E. Phipps)
Mark Haas (acting for and on behalf of Douglas Roberts)

Members Absent:

John McCormack

Others Present:

Karen Ammarman, MEGA Office, Michigan Jobs Commission (MJC)
Troy Ignelzi, Economic Development Director, City of South Haven
Jack McCloughan, Projects Administrator, Scott Aviation
Mike Pohnl, MEGA Specialist, Michigan Business Development, MJC
Tom Schimpf, Assistant Attorney General, Michigan Attorney General's Office
Mary Schuring, Research Associate, Michigan League for Human Services
Susan Shafer, Communications Director, MJC
Randy Tomsa, Operations Manager, Scott Aviation

Call To Order

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

Adoption of the Minutes from the October 28, 1998 Meeting

It was moved, supported, and carried that the minutes from the October 28, 1998 meeting be adopted.

Public Comment

There were no comments from the public.

Action Items

***Scott Technologies, Inc.
1201 Kalamazoo Street
South Haven, Michigan 49090***

Acting Chairperson Aceves introduced Mike Pohnl from the MJC and asked him to give the presentation. Before the presentation, Mike introduced Randy Tomsa and Jack McCloughan from Scott Technologies, Inc. and Troy Ignelzi from the City of South Haven. He then gave the presentation by summarizing key points from the briefing memo.

Project Description

Scott was founded in 1932 by Karle Scott in Lancaster, New York. The company originally produced tail wheel assemblies for airplanes. The business expanded into other hardware for aircraft. World War II made the business a success. Following the war, the company developed new safety products including oxygen packs for both military and civilian airplanes. The company was purchased by Figgie International in 1967. The company continued to expand the breathing apparatus business into fire safety, escape systems, and chemical and particulate filter masks. Figgie changed its name in May 1998 to Scott Technologies to reflect its concentration in the breathing apparatus and safety business. Scott, in South Haven, Michigan, began in 1963 and currently employs 56 people in Michigan.

Scott intends to expand into an existing facility in either South Haven, Michigan, or Elkhart, Indiana. The company will invest more than \$1 million in new machinery and equipment and invest further in leasehold improvements to either building. This expansion will create up to 92 new jobs with an average weekly wage of \$445. If this expansion takes place in Michigan, it will be located at a brownfield site, the former Bohn Aluminum Foundry, in South Haven.

The economic analysis done by the University of Michigan estimates this facility will generate a total of 165 jobs in the state by the year 2010. Total state government revenues through the year 2010, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$5,085,000 (1998 dollars) due to the presence of the Scott facility.

As part of the company's decision making process, it has undertaken a comprehensive cost analysis between Elkhart and South Haven. Based on figures obtained from the company, the annual cost disadvantage for Scott to establish its new manufacturing facility in South Haven rather than Elkhart is approximately \$100,000. The cost differential is primarily attributable to utility costs, lease costs, and tax incentives

offered by Elkhart and the state of Indiana. Michigan Jobs Commission staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Indiana.

The State of Michigan will provide Scott with a 100 percent abatement of the six-mill State Education Tax for a period of time to match the local property tax abatement. This tax abatement is estimated to be worth \$15,552 over the term of the incentive. In addition, the state will offer job training assistance of \$500 per job for up to 92 net new jobs or a total of up to \$46,000. In addition, Community Development Block Grant funds will be provided to the city of South Haven to assist in the development of a sewage pre-treatment facility at the Scott site.

The city of South Haven will provide a 50 percent property tax abatement for a period of twelve years worth approximately \$64,500.

Although the cost differential is small, this facility must maintain a competitive cost and profit position to continue to receive new product. By providing this incentive, the company will be better able to provide a quality product at a low price and to compete for future business within the company.

Staff Recommendation

The Michigan Jobs Commission recommends a MEGA employment credit of 50 percent for a period of 10 years for up to 92 net new jobs.

Board Members' Discussion

Vice Chairperson Porteous presented on behalf of the Executive Committee. He stated that this was one of the smaller projects that MEGA had done and that the Executive Committee had discussed whether the size of the project warranted the staff's time and effort. Typically, MEGA awards are made for projects that create substantially more jobs than the minimum of 75 that is specified in the statute. The Scott project will create 92 new jobs. The Executive Committee decided it was appropriate to provide the tax credits. Although Scott Technologies is small, it is a growing company.

The issue of whether MEGA should be used for small projects that just met the statutory minimum of 75 new jobs created was one that the Executive Committee wanted to give further consideration and discussion to and was asking staff to provide a report to the Executive Committee and the Board at a later date on the issue. Mr. Porteous also discussed the number of deals per year limitation under which MEGA operates. He said that since it is toward the end of the year, and MEGA is within the limit, it seemed appropriate to move forward with the tax credit.

Mr. Porteous said that the Scott project also raised the issue of the time period within which the minimum number of jobs needed to be created in order to qualify for MEGA. While the statute requires that 75 jobs must be created within one year of the expansion, it gives the MEGA some discretion in determining when the expansion occurs. In this case, the time that staff will begin to count the jobs may be slightly different than in the past due to the size of current Scott operations in South Haven and their ability to absorb growth.

Mr. Porteous said traditionally staff has tried to ascertain when the company would be capable of beginning production in its new facility. One year from that date is the Anniversary date, the date when the company must have created at least 75 jobs. That may be two to three years beyond the date the Board approves a credit, however, due to construction, equipment set up, tooling, etc. The anniversary date for the Scott Technologies project will be set at September 30, 2001 because the company needs time for employee recruitment, product development, and approval of new products by the Federal Government. Although there is no need to construct a new building, the company will need time to secure and install equipment and to recruit the necessary staff. Staff has talked internally and equates these needs with the ability to get a building physically ready for production.

Mr. Porteous stated that the farther out we set a date to count jobs, the more uncertainty comes into play. It is his belief that the Board needs to look at this issue also and decide how it wants to handle it. Does the Board want to keep the flexibility it currently has or would the Board rather define some parameters so that this issue is handled with consistency?

Acting Chairperson Aceves then asked if there were any questions from the Board.

There being no further questions, it was moved, supported, and carried that Resolution 1998-021 awarding tax credits to Scott Technologies, Inc. be adopted.

Adoption of 1999 Meeting Schedule

It was moved, supported, and carried that the proposed 1999 MEGA Meeting Schedule be adopted, recognizing that changes may be required.

The meeting was adjourned.