

ADOPTED MINUTES

A meeting of the Michigan Economic Growth Authority (MEGA) was held at the Michigan Economic Development Corporation, Victor Center, 4th Floor, 201 N. Washington, Lansing, Michigan on November 3, 2000 at 9:30 a.m.

Members Present:

Madhu Anderson (acting for and on behalf of Mark Murray, authorization attached)
Craig DeNooyer
Phil Kazmierski (acting for and on behalf of James DeSana, authorization attached)
Mary Lannoye (acting for and on behalf of Janet Phipps, authorization attached)
Doug Rothwell
Tim Ward

Members Absent:

Beth Chappell
Sarah Deson-Fried

Others Present:

Karen Ammarman, MEGA, MEDC
Peter Anastor, MEGA, MEDC
Ed Anzek, City of Rochester Hills
Romeo Betea, Dearborn BRA Board
Kathy Blake, Vice President, Business Development, MEDC
Jerry Brown, Ford Motor Company
John Czarnecki, Business Development, MEDC
Jim Donaldson, Vice President, Business Development, MEDC
David Jeup, Vice President, Business Development MEDC
Jennifer Kopp, Communications, MEDC
Penny Launstein, Business Development, MEDC
Corey Leon, MBD, MEDC
Ed Lewis, Ford Motor Company
Chad McIntosh, Ford Motor Company
Kathy McMahon, Communications, MEDC
Jim Paquet, MEGA, MEDC
Mike Pohnl, Business Development, MEDC
Jay Richardson, Ford Motor Company
Ellen Ross, MEDC
Tom Schimpf, Attorney General
George Sharp, Ford Motor Company
Randy Smith, The Traverse Group
Vern Taylor, MBS, MEDC
Duane Thelen, MBS, MEDC
Steve Zumstep, Energy Conversion Devices

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Call to Order

Chairperson Rothwell called the meeting to order at 9:38 a.m.

Adoption of Minutes from October 10, 2000

It was moved, supported and carried that the minutes from the October 10, 2000 meeting be adopted.

Public Comment

There were no comments from the public.

Brownfield Redevelopment Incentives

Jim Paquet and Vern Taylor presented a summary of the new incentives to the Board.

Recent revisions to Michigan law have given the MEGA the responsibility for two brownfield redevelopment incentives.

SBT Brownfield Redevelopment Credit

Public Act 143 of 2000 creates a Brownfield Redevelopment Credit that may be taken against a qualified taxpayer's Single Business Tax liability. The credit is for up to 10 percent of the cost of eligible investments made to redevelop property that is environmentally contaminated (a facility), or blighted, or functionally obsolescent in a qualified governmental unit.

Administration of Brownfield Redevelopment Credits is divided between the State Treasurer and the MEGA. Projects involving credits of \$1 million or less are considered by the Treasurer. The Treasurer may approve up to \$30 million dollars of credits per calendar year and must give preference to contaminated properties.

The MEGA is responsible for review of projects, which involve credits between \$1 million and \$30 million. Fifteen projects may be approved per calendar year. Of the fifteen projects, three may be for credits of \$10 to \$30 million. These large credits require a determination that the project would not occur in the state without the tax credit.

In evaluating projects the MEGA must consider the following criteria to the extent they are applicable to the type of project proposed:

- overall benefit to the public
- extent of reuse of vacant buildings or blighted property
- creation of jobs
- whether the project is in an area of high unemployment
- level and extent of contamination alleviated by the project

- level of private sector contribution to the project
- cost gap between the site and a similar Greenfield site
- whether the taxpayer is moving from another location in the state and whether the move will cause creation of a brownfield
- whether the taxpayer is financially sound and the project is economically sound
- any other criteria the MEGA considers appropriate.

The MEGA must approve or deny a project within 65 days of receiving an application.

Brownfield Tax Increment Financing

Public Act 145 of 2000 expands the types of activities and properties that are eligible for tax increment financing (TIF). TIF allows local Brownfield Development Authorities to capture future tax revenues generated from development of properties in a brownfield plan to finance development in the brownfield.

The law expanded the definition of eligible property to include functionally obsolete and blighted property in qualified governmental units. Previously, property had to be environmentally contaminated to be eligible. In addition TIF revenues may now be used for purposes other than environmental clean-up, including demolition, site preparation, infrastructure improvements and lead and asbestos abatement. If school operating taxes are to be captured to finance any of the expanded activities the MEGA must approve the project work plan.

Work plans describe the eligible activities that will be undertaken and the costs of those activities. Because school tax capture reduces state revenues, the MEGA must determine whether each work plan activity is necessary and sufficient, and whether the cost of that activity is reasonable. The MEGA must provide a written response within 60 days of receiving a work plan. The response must provide one of the following:

- unconditional approval
- approval that is conditioned on the addition or deletion of work plan activities or the revision of work plan costs
- or, if the work plan lacks sufficient information, a statement of the changes that must be made before the plan will be considered.

There is no limit on the number of work plans that may be approved.

Board Discussion:

Tim Ward presented the report of the Executive Committee. He indicated that discussion centered on whether the Board should exercise a fiduciary responsibility in reviewing work plans, approving only those that required an incentive to move forward.

He noted that projects were approved at the local level but effected state school revenues as well. He suggested that the work plan process could have a definite impact on the state because the number of eligible projects was not limited by law.

Madhu Anderson asked whether school districts had to approve the projects. Vern Taylor replied they did not, but could comment at public hearings.

Madhu Anderson asked whether the projects could be denied at the state level. Doug Rothwell replied that in his view a "But for" requirement should be included. He has asked staff to review the legislation and it appears there is greater latitude with the SBT credit than with work plan approvals. It may be that the board will have to request a legislative amendment. At the present, there is no option to disapprove a work plan.

Tom Schimpf indicated that he would be researching the law in an attempt to clarify this issue. He added that generally, the power to approve implies the power to deny.

Tim Ward asked whether the credit should be viewed as an enticement or an entitlement. Doug Rothwell responded that the intent is probably not as an entitlement and suggested that a legislative amendment be requested if the board desired.

Work Plan Approval

Traverse City
Grand Traverse County Brownfield Redevelopment Authority

Vern Taylor presented the project to the board.

The current ownership is under Northern Rock Holdings, LLC, d/b/a/ River's Edge Development.

The only building on the "eligible property," is a vacant warehouse. The remainder of the subject property is vacant, with trees and shrubs.

Eligible activities have been identified under a brownfield plan that was approved by the Grand Traverse County Brownfield Redevelopment Authority (BRA) and the Grand Traverse County Board of Commissioners.

The property is a facility based on a Baseline Environmental Assessment.

The project is a redevelopment of a 2.1 acre portion of the former Traverse Iron Works and is in the second phase of the development called River's Edge East. This will be a mixed-use comprised of: 1) riverside condominiums b) home office units and c) an office building. The development will include on-site parking for businesses and their employees.

Board Discussion:

Tim Ward deferred to Doug Rothwell to give the report of the Executive Committee due to a conflict of interest. (He also abstained from voting on this matter.)

Doug Rothwell presented the report of the Executive Committee. He indicated that there was insufficient information to determine the amount of State Education tax to be captured. The Executive Committee recommends that approval not be given for this project, without prejudice, to allow the applicants to return to the table with further information.

Phil Kazmierski noted that it would be helpful, in cases where there was a discrepancy in the amount recommended and requested, to include the amount requested in the memo. Vern Taylor indicated that future memos would include that information.

Mary Lannoye asked about the "NOW THEREFORE, BE IT RESOLVED" clause. Jim Paquet stated that the resolved clause was consistent with the options available to the MEGA in the statute and that a letter will be sent to the applicant requesting additional information.

Tom Schimpf referenced page ten of Act 145 which enumerated the MEGA's options for action.

Vern Taylor advised the Board it had 60 days to act on a work plan and that the receipt of the additional information would initiate a new 60-day period. If the Board did not act within 60 days, the work plan would be deemed approved 90 days after receipt.

Mr. Smith from the Traverse Group asked whether the work plan was being denied. Mr. Paquet said no, that additional information was being requested and that review of the work plan would begin upon submission of the information.

Chairman Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-037 requesting additional information for River's Edge work plan be approved.

Action Item

Ford Motor Company
One American Road
P.O. Box 1899
Dearborn, MI 48126-1899

Jim Donaldson presented the project to the board.

Ford Motor Company intends to redevelop its Rouge Center complex in Dearborn. Activities include construction of a new assembly plant composed of body shop and final assembly facilities. This assembly plant is part of a larger \$1 billion renovation and expansion project for the Rouge Center. This total renovation will allow the company to retain at least 2,900 jobs at the facility and up to 3,800 jobs, should product volume warrant a third shift. Average weekly wage is expected to be \$1,001 with a comprehensive benefits package. Ford is also considering another North American location for this facility.

The project will replace an obsolete facility with a state of the art manufacturing facility. Care will be taken in the demolition of the obsolete glass plant to preserve the historically significant façade. A visitor's center will be established on the site from which tours will be conducted of the new assembly plant.

According to the economic analysis done by the University of Michigan, it is estimated that the project will result in retention of 16,448 jobs in the state by the year 2022. Total state government revenue retained, adjusted for inflation, is estimated at \$1,315,252,000 through the year 2022, due to the Ford project.

This economic analysis takes into account the fiscal effects of both the brownfield tax credit and the MEGA benefits offered to the company.

Based on figures obtained from the company, the cost disadvantage for Ford to undertake the project in Michigan rather than another North American site is approximately \$16 million annually over the term of the incentive. The most significant factor in this differential is tax cost which is approximately \$23 million per year due to greater corporate and personal property taxes in Michigan. This differential is partially offset by transportation costs that are nearly \$8 million less for a Michigan plant location.

The State of Michigan has offered an Economic Development Job Training grant of up to \$3.8 million to the company. In addition, the state of Michigan will provide grant funding of up to \$5 million for a Michigan Technical Education Center at or near the Rouge Center. The state will also offer a 100 percent abatement of the 6-mill State Education Tax estimated to be worth over \$9 million. The local tax abatement offer by the City of Dearborn could be worth up to \$66 million over twelve years.

The proposed project site is an eligible property. The City of Dearborn is a qualified local governmental unit and has certified that the property is functionally obsolete. The project is the subject of a brownfield plan approved by the Dearborn Brownfield Redevelopment Authority. The brownfield plan has been approved by the City of Dearborn.

The Project does not involve relocation from another area in the state and will not result in the creation of another brownfield.

The level and extent of the contamination that will be alleviated by the eligible investments is unknown. Any environmental hazards discovered in connection with the project will be handled in the manner necessary to protect the public health and safety and the environment.

Recommendation:

The Michigan Economic Development Corporation recommends a MEGA Brownfield Credit of 10 percent of the eligible investment in the Ford Rouge Center Redevelopment project, but no more than \$30,000,000.

The Michigan Economic Development Corporation also recommends an employment credit of 50 percent for up to 3800 retained employees and a 50 percent business activity credit, both for 20 years.

Board Discussion:

Tim Ward presented the report of the Executive Committee. He asked if the letter documenting the tax abatement from the City of Dearborn had been received and was advised it had.

He reported that the committee was impressed by the magnitude of the project, the number of jobs retained and the enormous economic benefits of going forward with the project and the credit. He also cited the significant commitment by the City of Dearborn.

Doug Rothwell advised members present that the Credit recommended is consistent with that awarded on the GM/Platinum project. He indicated no additional brownfield credits will be recommended for suppliers to the project.

Madhu Anderson asked whether jobs would be retained if the market was not strong for the particular vehicles planned for the plant. Jay Richardson indicated that Ford Motor Company anticipates production to maintain the same level as it currently is for the next couple of years. He explained that the Rouge plant is a "flexible plant" and has capacity to build any size truck and even convert to making automobiles depending upon demand in the market.

Craig DeNooyer asked if the alternative site in North America was in the United States. Jay Richardson responded that there was a site in the United States and a site outside the United States.

Chairman Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-039 (Brownfield Redevelopment Credit) and Resolution 2000-038 awarding a MEGA tax credit to Ford Motor Company be adopted.

Action Item:

Energy Conversion Devices, Inc.
1675 W. Maple Road
Troy, MI 48084

Jim Donaldson presented the project to the Board.

Energy Conversion Devices, Inc. is entering into a joint venture with Texaco Energy Systems, Inc. to develop and commercialize fuel cell and hydrogen storage technologies. Energy Conversion Devices currently has 305 employees in Michigan. Texaco Energy Systems does not currently have any Michigan employment.

Energy Conversion Devices is looking for a location for its joint venture research and development center. The company is looking to site this facility in Rochester Hills, Michigan or Petersburg, Virginia, where the company has found a suitable facility. Capital investment would be \$3.85 million for the building (includes capitalized lease and leasehold improvements) and \$22.3 million in equipment, for a total of \$26.2 million. Up to 82 new jobs would be created within a 5-year period at average weekly wages of \$1,169 (\$29.22 per hour) and a benefit package worth up to 20 percent of wages.

Building renovations would begin in November 2000 and be completed by December 2000, when operations would begin immediately. The company anticipates having up to 54 new hires in its first year of operation and up to 82 within five years.

According to the economic analysis done by the Michigan Economic Development Corporation using REMI software, it is estimated the facility will generate a total of 108 jobs in the state by the year 2006. Net state government revenues through the year 2006, would be increased by \$2,197,000 due to the project.

Based on figures obtained from the company, the cost disadvantage for Energy Conversion Devices to locate this research and development facility in Michigan rather than Virginia amounts to approximately \$1 million annually over the term of the incentive. The total cost disadvantage to the company in the initial 6 years totaled \$6.5 million.

The most significant factors in this differential are lower wages and lease costs in Virginia. The Michigan Economic Development Corporation has reviewed these cost differentials and feel they are accurate.

The State of Michigan will provide Energy Conversion Devices a 100 percent abatement of the six-mill State Education Tax valued at \$230,715. In addition, the state will offer job training assistance of \$1,000 each for up to 82 net new jobs, for a total of \$82,000.

The City of Rochester Hills will be providing the company with a 50 percent abatement of personal property taxes for a period of 5 years, estimated to be worth up to \$816,803.

Recommendation:

The Michigan Economic Development Corporation recommends a high-tech MEGA employment credit of 100 percent for up to 82 net new jobs and a business activity credit of 100 percent, each for 6 years.

Board Discussion:

Tim Ward presented the report of the Executive Committee. This project will diversify the state's economy with an emphasis on R&D and high tech.

The company provided a brief presentation to the board on its project and explained the use of hydrogen within its product. In response to a question from Chairman Rothwell on competition he indicated that ECD maintains the patent on many of the hydrogen products and, as yet, has experienced no real competition within its field.

Chairman Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-040 awarding a MEGA tax credit to Energy Conversion Devices, Inc. be adopted.

Walbro Automotive Corporation Credit to Vitec, LLC – Amendment

Jim Paquet presented the project to the Board.

The MEGA adopted Resolution 1996-016 awarding a tax credit to Walbro Automotive Corporation for formation of a minority owned joint venture to manufacture and assemble fuel storage and delivery systems for automobiles. The credit was the first to a minority owned company and involved redevelopment of a vacant industrial site in Detroit's Empowerment Zone.

An Employment Credit of 100 percent for twenty years and a Business Activity Credit of 100 percent for ten years were awarded for the project. The credit was authorized with the understanding that it would be transferred to the joint venture when the joint venture was formed.

The transfer of the credit has been delayed for a number of reasons. First, to allow time for the formation of the joint venture, then to resolve issues related to the establishment of the base employment level of the project, and ultimately to account for the restructuring of one of the joint venture partners and the acquisition of the other.

The joint venture, Vitec, LLC, has been formed. The project has been completed and is operational with 225 new jobs created to date.

The proposed Resolution would amend the original Walbro Automotive Corporation resolution to award the credit to Vitec, LLC, and establish the base employment level.

The staff recommends adoption of the resolution.

Board Discussion:

Tim Ward presented the report of the Executive Committee. Jim Paquet advised that the base employment rate includes the jobs of the two Michigan companies involved with the joint venture.

Chairman Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-041 awarding transfer of the Walbro Automotive Corporation Credit to Vitec, LLC.

The meeting was adjourned at 10:32 a.m.

11/3/00/1pm/l:private/edfi/mega/minutes