

Adopted Minutes

A meeting of the Michigan Economic Growth Authority (MEGA) was held at the Victor Office Center, 201 N. Washington Square, 4th Floor, Lansing, Michigan on December 12, 1995 at 10:00 a.m.

Members Present:

Douglas Rothwell, Chairperson
David Porteous, Vice Chairperson
Beth McDermott Chappell
Phil Kazmierski (acting for and on behalf of Patrick Nowak, authorization attached)
Mark Haas (acting for and on behalf of Douglas Roberts, authorization attached)
Mary Lannoye (acting for and on behalf of Mark Murray, authorization attached)
William LaMothe (via phone)
John McCormack

Others Present:

Al Aceves, MEGA Specialist, Michigan Jobs Commission
Diana Burns, Michigan Jobs Commission
Brian Dilworth, Pilot Industries, Incorporated
Jim Donaldson, Outstate Regional Director, Michigan Jobs Commission
Martin Honaker, Hess Industries Incorporated
Jim Paquet, Secretary to the MEGA Board
Mike Pohnl, MEGA Specialist, Michigan Jobs Commission
Douglas Stites, Chief Operating Officer, Michigan Jobs Commission
Tom Tarlton, Account Representative, Michigan Jobs Commission

Call To Order

The meeting was called to order by Mr. Rothwell at 10:04 a.m.

Adoption of the Minutes from the November 14, 1995 Meeting

It was moved, supported, and carried that the Minutes from the November 14, 1995 meeting be adopted.

Public Comment

None.

Action Items

Hess Industries, Incorporated
191 Fir Road
Niles, Michigan 49120-9766

Mr. Rothwell introduced Mr. Jim Donaldson of the Michigan Jobs Commission and stated that Mr. Donaldson would be presenting a summary of the proposed project. He asked Mr. Donaldson to introduce the Hess Industries group. Mr. Donaldson introduced all in attendance: Martin Honaker, Director of Finance of Hess Industries; Brian Dilworth, Pilot Industries; Tom Tarleton, Account Representative, Michigan Jobs Commission; Mike Pohnl and Al Aceves, MEGA Specialists, Michigan Jobs Commission.

History of Company

Hess Industries develops, manufactures and distributes worldwide specialized machine tools, some with proprietary designs. Hess was started about 20 years ago by J.T. Hess and today is considered a leader in the technological advancement of the machine tool industry. Hess is made up of a group of four individual machine tool companies occupying five physical locations in Michigan, Indiana, and a European sales office in Switzerland. Total sales for the year ending July, 1995 were \$64.5 million with a total employment of 423 worldwide, 242 in Michigan.

Project Description

The proposed project would consist of 3 facilities; an office building for Hess Engineering, Incorporated, manufacturing facilities and offices for Hess MAE, Incorporated and X-Cel Fabricating, Incorporated, all of whom are wholly-owned subsidiaries of Hess Industries, Incorporated. These operations will be located in three separate locations in Berrien and Cass Counties. X-Cel Industries would move existing operations out of Indiana into Michigan. The total project would consist of at least a \$6 million investment in buildings, machinery and equipment and 90 new jobs with an average weekly wage of \$598. Total annual payroll would be more than \$2.8 million at full production.

Cost Analysis

Based on figures obtained from the company, the annual cost disadvantage for Hess Industries, Incorporated to establish their manufacturing facility in Niles rather than South Bend, Indiana ranges from approximately \$124,000 to \$181,000 per year over the term of the incentive. The cost differential is primarily attributable to lower workers compensation rates, property and corporate taxes in Indiana.

Benefit to State

Based on the economic analysis done at the University of Michigan, it is estimated that this facility will generate a total of 90 new jobs in the State by the year 1998. Total state government revenues through the year 2017, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation would be increased by \$14.3 million, due to the presence of the Hess Industries facilities.

Staff Recommendation

The Michigan Jobs Commission recommends a MEGA employment credit of 75 percent for a period of 20 years, for up to 90 new employees, and business activity credit of 100 percent for a period of 20 years.

Mr. Rothwell stated that the Executive Committee had met several days earlier to discuss the application and asked if there were any questions.

Mr. Porteous asked how the "new jobs" are counted? Mr. Donaldson deferred this question to Mr. Stites. Mr. Stites stated that it was the policy to count total net new jobs created by the company to determine whether it qualified for the credit, whether it met the 75 or 150 job threshold. The actual credit awarded the company would be based on the payroll for jobs held by Michigan residents. Because the Hess facility was close to the Indiana border it was anticipated that some of the new jobs would be held by Indiana residents.

Mr. Rothwell asked if the revenue impact had actually been overstated? Mr. Stites responded yes, the REMI was prepared using all 90 jobs as being held by Michigan residents. He added that the MEGA costs were comparably overstated.

Mr. Rothwell asked if the all the jobs would be at the same location? Mr. Stites responded that positions would be filled at the Milton facility, MAE, and then the Mishawaka relocation, respectively. The relocated Mishawaka jobs would tend to be the higher wage jobs. Mr. Stites also added that the tax credits will not start immediately but will start when the manufacturing facility is up and running. Mr. Stites stated that the Mishawaka plant will close when the new manufacturing plant in Niles is opened. The best estimate was that operations would begin in 1997 with the credits starting in 1998.

Ms. McDermott Chappell stated that the Executive Committee had agreed it was a unique opportunity for Michigan which would bring well paying jobs to the State.

Mr. Kazmierski asked if the 30 jobs to be created in Michigan were going to be transfers from Mishawaka? Mr. Stites stated that indeed there would be a transfer of jobs and employees from Mishawaka to Michigan. The jobs however, are still viewed as new Michigan jobs.

Mr. LaMothe expressed his understanding that no credit is given for jobs created after the initial 90. Mr. Rothwell stated yes that was true. He added that in this case, as with other MEGA awards, the minimum

credit was offered to secure the company's expansion in Michigan. A MEGA award is based on a specified number of jobs to be created, it is not a blank check.

It was moved, supported, and carried that Resolution 1995-014 awarding tax credits to Hess Industries, Incorporated be adopted.

ADOPTED:

AYES: Doug Rothwell, Phil Kazmierski (acting for and on behalf of Patrick Nowak, authorization attached), Mark Haas (acting for and on behalf of Douglas Roberts, authorization attached), Beth McDermott Chappell, William LaMothe (via phone), David Porteous, Mary Lannoye (acting for and on behalf of Mark Murray, authorization attached), John McCormack

NAYS: None

Pilot Industries, Incorporated
2319 Bishop Circle East
Dexter, Michigan 48130

History of Company

Pilot produces welded steel tubing, extrusion modeled and injection molded plastic products, dies and special tools and electronic test equipment. Pilot has four plants in Michigan, one in Indiana. Pilot was started in 1967. It specializes in fuel and oil systems. The company has grown steadily through expansion and acquisition to a little more than 100 employees. Pilot Tool and Die, Incorporated in Reed City, Michigan was purchased in July, 1993, and manufactures special tools and dies. Pilot Tool and Die management will oversee operations of the new facility.

Project Description

The proposed project would consist of a new sheet molded compound (SMC) plant in either Clare, Michigan or Lebanon, Kentucky. The material is used for heat shields and skid plates. This expansion will require an investment of approximately \$3.5 million in a new building and more than \$8 million in machinery, equipment, and special tooling. This project will create 418 new jobs with an average weekly wage of \$320 for an annual payroll of more than \$6.5 million at full production.

Cost Analysis

As part of the company's site decision process, it had undertaken a comprehensive cost analysis between Lebanon, Kentucky and Clare, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Pilot Industries to establish their manufacturing facility in Clare rather than Lebanon

ranges from approximately \$229,000 to more than \$604,000 over the term of the incentive. The cost differential is primarily attributable to lower utility costs and Kentucky state incentives.

Other state assistance includes a 100 percent abatement of the 6 mill state education tax, Community Development Block Grant funding for public infrastructure, and workforce recruitment, screening and training assistance. Local assistance in the form of a property tax abatement that totals approximately \$662,000 over 12 years will be offered to the company by the local community.

Benefit to State

Based on the economic analysis done at the University of Michigan, it is estimated this facility will generate a total of 418 new jobs in the State by the year 1998. Total state government revenues through the year 2016, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation would be increased by \$33.8 million, due to the presence of the Pilot facility.

Staff Recommendation

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 20 years, for up to 418 new employees, and business activity credit of 100 percent for a period of 12 years.

Mr. Haas asked if the application for credit was made for the Midland site specifically or somewhere else? Mr. Stites answered that the company is required to have the location site chosen before the tax credits can be approved and that the Midland site was no longer an option.

Mr. McCormack asked when production will be up and running? Mr. Dilworth responded that the facility will be up and running by July, 1996 and the first 75 jobs will be filled at that time.

Mr. Porteous, being a Reed City native, gave a brief history of Pilot's buyout of a failing tool and die company in Reed City and how Pilot turned the company around and made a thriving business out of it. He also added that he personally had questioned the seriousness of Pilot moving their operations from the Reed City area to Lebanon. Mr. Porteous indicated that after the Executive Committee meeting he had no doubts that, without the MEGA tax credits, Pilot would have chosen the Lebanon site.

Mr. Dilworth agreed with Mr. Porteous and added that even with the MEGA credit it was a close vote as the company needs a presence in the South. Had the Lebanon site been chosen, the Reed City plant would have been closed with operations moving to Lebanon.

Mr. Stites added that the MEGA award helped stem the flow of this business out of Michigan, avoiding a critical mass being established in the South. This underlines that our presence (MEGA) is critical in Michigan.

Mr. LaMothe stated that in a Mackinaw Institute Report it was reported that unless at least \$9.00 per

hour could be earned, there was not enough incentive for people to leave the welfare system. Mr. LaMothe stated that Michigan needs to push for a revised welfare system.

Ms. McDermott Chappell said when the Executive Committee met they had discussed the wages in the Clare area as being on the low side. However, the jobs that have been brought in by MEGA credits are considered the better paying jobs. The wages are respectable for the Clare area and the MEGA needs to be mindful of differences in wage scales across the State.

It was moved, supported, and carried that Resolution 1995-015 awarding tax credits to Pilot Industries, Incorporated be adopted.

ADOPTED:

AYES: Doug Rothwell, Phil Kazmierski (acting for and on behalf of Patrick Nowak, authorization attached), Mark Haas (acting for and on behalf of Douglas Roberts, authorization attached), Beth McDermott Chappell, William LaMothe (via phone), David Porteous, Mary Lannoye (acting for and on behalf of Mark Murray, authorization attached), John McCormack

NAYS: None

Meeting Schedule

It was moved, supported, and carried that the proposed 1996 MEGA Meeting Schedule be adopted recognizing that, as always, changes may be required.

ADOPTED:

AYES: Doug Rothwell, Phil Kazmierski (acting for and on behalf of Patrick Nowak, authorization attached), Mark Haas (acting for and on behalf of Douglas Roberts, authorization attached), Beth McDermott Chappell, William LaMothe (via phone), David Porteous, Mary Lannoye (acting for and on behalf of Mark Murray, authorization attached), John McCormack

NAYS: None

At this time Mr. Rothwell gave a brief update on what the MEGA Board has accomplished since inception.

Mr. Porteous questioned the MEGA sunset -- what can be done to extend the deadline? Mr. Rothwell stated that he wants to have the cap (limit of 25) removed and the sunset date changed. Mr. Rothwell also stated he hoped there would be no new boilerplate language by the Legislature -- which could make the program too bureaucratic. The MEGA Program is a Michigan Jobs Commission priority and

Margaret O'Reilly (MJC's legislative liaison) has been talking to legislators regarding extending the sunset date and removing the cap.

Mr. Stites stated that there would probably be more than 25 deals next year and companies would probably be trying to rush for approval before the sunset date approaches. Mr. Stites also reported that the average approval takes approximately six weeks from initially filing an application to the approval by the Board.

Mr. Porteous suggested that it would be helpful if applications could be grouped so that 3 or 4 could be handled at a meeting.

Ms. McDermott Chappell suggested that a debriefing after the first of the year covering: possible opportunities; continuous improvement of program; etc., might be helpful. Mr. Rothwell indicated that an analysis of the program by Mr. Donaldson would be helpful and asked that one be prepared for the first meeting next year.

Mr. Kazmierski asked if there would be a report for the Legislature? Mr. Rothwell responded yes, within the next couple of weeks one could be prepared as a kind of "scorecard" for MEGA.

The meeting was adjourned at 10:45 a.m.