

ADOPTED 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 February 11, 1999 at 10:00 a.m.

Members Present:

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

Members Absent:

Janet E. Phipps

Others Present:

Al Aceves, Deputy Director, International and National Business Development, Michigan Jobs Commission (MJC)
Karen Ammarman, Michigan Economic Growth Authority (MEGA) Office, MJC
Dawn Baetsen, Director, National Business Development, MJC
Kathy Blake, Director, Michigan Business Development (MBD), MJC
Don Colestock, Mayor, City of Eaton Rapids
Tim Daiss, Director of Human Resources, Meridian Magnesium Products of America
Jim Donaldson, Deputy Director, MBD, MJC
Cristine Dreese, Recording Secretary, MEGA, MJC
Tracy Freeman, MEGA Specialist, MBD, MJC
Dan Hanson, Director of Finance, Meridian Magnesium Products of America
Bill LeFevere, City Manager, City of Eaton Rapids
Rick Lumsden, Plant Manager, Meridian Magnesium Products of America
Rick Monroe, Development Director, City of Eaton Rapids
Sante J. Perrelli, Assistant Attorney General, Michigan Attorney General's Office
Mike Pohnl, MEGA Specialist, MBD, MJC
Tom Schimpf, Assistant Attorney General, Michigan Attorney General's Office
Larry Schrauben, Executive Secretary, Michigan Strategic Fund, MJC
Susan Shafer, Communications Director, MJC
Trygve Vigmostad, Vice President, Lansing Regional Chamber of Commerce

Call To Order

The meeting was called to order by Chairperson Rothwell at 10:15 a.m. Prior to commencing with the agenda items, Chairperson Rothwell asked individuals in the room to introduce themselves and their affiliations.

Adoption of the Minutes from the November 17, 1998 Meeting

It was moved, supported, and carried that the minutes from the November 17, 1998 meeting be adopted.

Public Comment

There were no comments from the public.

Action Items

***Magnesium Products of America
2001 Industrial Drive
Island City Industrial Park
Eaton Rapids, Michigan 48827***

Chairperson Rothwell introduced Jim Donaldson from the MJC and asked him to present the project. Mr. Donaldson welcomed the representatives of the company and guests from the local community who were present on behalf of this project. He then summarized the key points from the briefing memo.

Project Description

Magnesium Products of America, Inc., is located in Eaton Rapids, Michigan and employs 243 there. The company produces magnesium die cast products primarily for the automotive industry. The Eaton Rapids facility produces instrument panel beams, seat frames, steering column brackets, steering column housings, and transfer cases. It has been at this site for approximately three years.

Magnesium Products of America recently won a major contract and needs to increase capacity. This project is in competition with Magnesium Products's Strathroy, Ontario, Canada, facility. The proposed project would invest \$7,475,000 in building and \$15,345,000 in equipment. It would add up to 91 new employees with an average weekly wage of \$519 and a full benefit package. It has an operation start date of April 1, 2000, with a construction start date of May 1999.

This project consists of two new operations. Magnesium Products expects to add new die cast machines for the new contract. The company will also construct a recycling process.

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 157 jobs in the state by the year 2009. Total State government revenues through the year 2009, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$3,744,000 (1998 dollars) due to the presence of the Magnesium Products facility.

Based on figures obtained from the company, the annual cost disadvantage for Magnesium Products to establish its new manufacturing facility in Eaton Rapids rather than Strathroy is approximately \$600,000 annually. This cost differential is due primarily to benefit costs (Canada provides national health care) and lower property tax rates in Canada. The company would not be able to locate in Michigan without MEGA credits to offset these higher costs in Michigan.

The State of Michigan will provide Magnesium Products 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 \$653,703 over the term of the incentive. In addition, the State will offer job training assistance of \$1,400 per job for up to 91 net new jobs up to a total of \$127,400. Community Development Block Grant funds will be provided to the city of Eaton Rapids to assist in providing electric transformers and in moving a municipal well to allow future expansion on the Magnesium Products site. The city of Eaton Rapids will provide a 50 percent property tax abatement for a period of 12 years worth approximately \$2,528,812.

Staff Recommendation

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of ten years and a business activity credit of 100 percent for ten years for up to 91 net new jobs.

Board Members' Discussion

Prior to giving the report of the Executive Committee, Vice Chairperson Porteous welcomed Mark Murray back to the MEGA Board. Other Board members added their welcomes and congratulations.

Vice Chairperson Porteous gave the report of the Executive Committee. The Executive Committee was recommending the Magnesium Products of America project to the full Board. Committee discussions focused on the competition with Ontario for the project, the local community assistance to the project, the number of new jobs that would be created, and the investment that the company would be making in the project.

Chairperson Rothwell reported that a Deloitte & Touche study comparing Michigan to Ontario concluded that Ontario was very competitive because Ontario's tax burden falls more heavily on individuals than corporations. Mike Pohnl added that because the majority of the health care costs would be borne by the company and because there are no property taxes in Ontario, there is a cost gap between Michigan and Ontario that needs to be closed to locate this project.

Chairperson Rothwell asked for discussion from the Board. Board member McCormack asked about the cost differential between Michigan and Ontario. Mr. Pohnl explained that the differential was primarily due to differences in the employee benefit packages being offered and in the property taxes between the two areas. Asked whether the currency exchange rates were a factor in Magnesium's decision to expand its facility in Eaton Rapids, Mr. Hanson responded that it was not a factor as building costs were lower in Ontario. Mr. Donaldson noted that differences in capital investment costs are not usually a factor in negotiating MEGA since they are subject to recapture by the company.

Board member Garavaglia asked about the total employment figure on page two of the briefing memo. Mr. Pohnl explained that that figure represented an internal company policy to limit the number of employees at a specific site.

There being no further questions, it was moved, supported, and carried that Resolution 1999-001 awarding tax credits to Magnesium Products of America be adopted.

Asama Coldwater Manufacturing, Inc. - Amending Resolution

Jim Donaldson presented the Asama Coldwater Manufacturing, Inc. amendment. Asama had not met the requirement for the minimum number of Qualified New Jobs by its original Anniversary Date. The failure to meet the deadline was caused by production delays in the casting operations and high employee turnover in a tight labor market. The company has since met the requirements for eligibility.

Mr. Porteous indicated that the Executive Committee felt comfortable with an extension for this project because Asama had now met its original job numbers and the Average Weekly Wage that they are paying is higher than its original projections.

Vice Chairperson Porteous asked what guidelines, procedures, or processes could be put into place by staff to reduce the need for such amendments. Chairperson Rothwell agreed that it was not a good procedure to alter Anniversary Dates and suggested that staff set benchmarks. He acknowledged that Asama had made an honest effort and had now met its job numbers and wages. Chairperson Rothwell asked the Board how tough a line they thought the company should have to follow. Board member McCormack stated he was a little concerned about some hard and fast rules being set.

He mentioned that, being familiar with the construction industry, he is well aware of the long time frames necessary for the completion of a project and that project deadlines are not always met. He did not think the Board "should pull the rug out" from a company or the local community in the midst of a project. He suggested that the Board be as flexible as possible in dealing with these types of exceptions. Board member Murray suggested that a tickler system be set up and used by staff to monitor company adherence to time lines. Another suggestion was that an annual notice be sent to the CEO of the Company stating that the Company must comply with its original MEGA Agreement each year, etc.

Mr. Schimpf, Assistant Attorney General, said that while flexibility is desirable, the MJC should develop standards to enable it to withstand potential future litigation.

After confirming that staff had verified the reasons for Asama's failure to comply with the terms of the MEGA Agreement and stating that Asama ought not be penalized for circumstances that were beyond its control, Vice Chairperson Porteous recommended that a Resolution authorizing the change of the Anniversary Date to August 31, 1998 be approved.

It was moved, supported, and carried that Resolution 1999-002 authorizing the extension of the Anniversary Date for Asama Coldwater Manufacturing, Inc. be adopted.

Shiloh of Michigan, L.L.C. - Amending Resolution

Dawn Baetsen presented the Shiloh of Michigan, L.L.C. amendment. She stated that the company had requested an extension of its anniversary date from October 31, 1998 to January 1, 2000, because of delays in construction of the Romulus facility and in infrastructure improvements, defects in manufacturing equipment, and difficulties with finding individuals to fill the job positions due to a tight labor market.

Mr. Porteous reported that the Executive Committee was disappointed that the Company was asking for such a significant extension in its Anniversary Date. He also noted that there are many unknowns and that, even if the Anniversary Date were extended, the project might not meet the requirements by the new Anniversary Date.

Ms. Baetsen stated that the Company has a strong incentive to meet the new MEGA deadline as it has contractual obligations with its primary customers to meet that deadline. Shiloh is aware that it will forego MEGA if it doesn't meet the newly proposed Anniversary Date but, more importantly, it will lose its primary customers if it is not in full production by that date.

When asked when the Company would reach 150 jobs, Ms. Baetsen responded that the Company is continuing to recruit and hire employees and believes it can create 150 jobs by the last quarter of 1999.

Ms. Baetsen also said that Shiloh's commitment to Michigan is permanent and on-going. The Company needs to be in Michigan because the investment has been made and customer demand.

Mr. Aceves told the Board that the Romulus facility is Shiloh's first operation outside Ohio, and that the Company has since purchased other Michigan companies. Further, the Company is only 32 employees short of meeting the Qualified New Jobs requirement. Mr. Aceves also pointed out that, during the construction phase, the City of Romulus was delinquent in issuing some of the permits the Company needed and this, in turn, caused further delays.

Mr. Murray suggested that we table this project for the time being and bring it back to the Board at a later date. Mr. Porteous agreed that there did not appear to be a lot of downside to waiting to see how the Company proceeds. Chairperson Rothwell suggested the Board table the extension until its next meeting and that a resolution be brought to the Board stipulating that if the Company did not meet the requirements of the extended Anniversary Date, there would be no further extensions. Furthermore, Mr. Rothwell would send a letter to Shiloh following the adoption of a resolution extending the company's Anniversary Date reiterating the terms under which the Anniversary Date was extended. This suggestion was agreed upon by the Board.

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