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 19, 1998 at 10:00 a.m.

Members Present:

Doug Rothwell
David Porteous
Greg Rosine (acting for and on behalf of James R. DeSana)
John McCormack
Mary Lannoye (acting for and on behalf of Janet E. Phipps)
Mark Haas (acting for and on behalf of Douglas Roberts)

Members Absent:

Beth Chappell
William LaMothe

Others Present:

Al Aceves, Deputy Director, International & National Business Development (INBD), Michigan Jobs Commission (MJC)
Teri Arbenowske, Economic Dev. Coordinator, City of Farmington Hills
Luke Baer, Vice President/General Counsel, Robert Bosch Corporation
Tom Blankenship, Vice President/Director of Taxes, Robert Bosch Corporation
Greg Burkart, Director, INBD, MJC
Jim Cash, Christman Corporation
Jay Cravens, Cascade Township
Linda Dankoff, Michigan Business Development (MBD), Michigan Account Management (MAM), MJC
Cristine Dreese, Secretary, MJC
Ann Fillingham, Dykema Gossett
Barry Golko, Smiths Industries
Eric Kociba, House Democratic Policy Staff
Larry Kramer, Coopers & Lybrand
Amy Lane, Reporter, Crain's Detroit Business
Dennis McAndrew, Coopers & Lybrand
Greg Nicholas, INBD, Special Attractions, MJC
Jim Paquet, Secretary to the MEGA Board, MJC
Gary Saunders, Executive Vice President & CFO, Robert Bosch Corporation
Todd Talbot, President, Alsons Corporation
Jim Tobin, Director, Public Affairs, MJC
Doug Voshell, MBD, MAM, MJC
Hans J. Weckerle, President, Bosch Braking Systems AM
Tom Whipple, CFO, Smiths Industries

Call To Order

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

Adoption of the Minutes from the December 17, 1997 Meeting

It was moved, supported, and carried that the minutes from the December 17, 1997 meeting be adopted.

Public Comment

There were no comments from the public.

Action Items

Alsons Corporation
42 Union Street
Post Office Box 282
Hillsdale, Michigan 49242

Chairperson Rothwell introduced Al Aceves from the MJC and asked him to present the project. Mr. Aceves introduced Todd Talbot from Alsons Corporation and Greg Nicholas of the MJC. Mr. Aceves then summarized the key points from the briefing memo on the project.

Project Description

The Alsons Corporation is the formation of two separate divisions; Mixet, located in Pico River, California, (founded in 1947) and Alsons Corporation, currently located in Hillsdale, Michigan (founded in 1958). Alsons Corporation was acquired by the Masco Corporation in 1987. Alsons and Mixet manufacture handheld and fixed shower heads and shower valves.

Alsons Corporation is considering its current location, Hillsdale, Michigan, or Somerset, Kentucky, for the location of a new manufacturing facility. The project will require the company to invest $13.3 million, in addition to creating 105 net new jobs in Michigan. The average weekly wage is approximately $385. Annual payroll will be approximately $7.6 million at full production. Choosing the Hillsdale site means that Alsons Corporation will be retaining 156 jobs.

According to the economic analysis done by the University of Michigan, this facility will generate a total of 154 new jobs in the state by the year 2005. Total state government revenues through the year 2005, would be increased by $695,000 in 1998 dollars due to the presence of the Alsons facility.

Local assistance will be in the form of a 12-year, 50 percent tax abatement valued at $1,830,000. The city of Hillsdale will be providing water, sewer, roads, and property at an approximate cost of $150,000.

The annual cost disadvantage for the Alsons Corporation to establish its new manufacturing facility in Hillsdale, rather than in Somerset, Kentucky, ranges from approximately $1,014,000 to $683,000 annually over the term of the incentive. The cost differential is primarily due to building costs, taxes, and wages. The company would not consider locating in Michigan without the MEGA tax credit to offset wage, building, and tax differentials.

Staff Recommendation

The Michigan Jobs Commission recommends a MEGA business activity credit of 100 percent for 6 years for up to 105 new jobs.

Board Members' Discussion

Vice Chairperson Porteous gave the report of the Executive Committee, indicating that it was recommending the Alsons Corporation project to the full Board. The Executive Committee was pleased to see the strong commitment by Hillsdale County to the project. The project will bring new jobs to the area as well as retaining jobs. The project highlights the ability to use MEGA on a statewide basis, with no region getting all the new jobs. He congratulated staff on the tailoring of an incentive package that met the needs of the company and stated how important it is to the State that we continue to diversify the manufacturing base in Michigan.

Chairperson Rothwell asked for discussion from the Board. Mr. McCormack noted that this was the first project in which building costs were a component of the cost differential addressed by the MEGA. Mr. Aceves explained that the state of Kentucky had offered the company the use of an existing building and that offer had to be responded to. There was some discussion regarding the use of Michigan Renaissance Fund (MRF) money for infrastructure. It was pointed out that the types of jobs at the project would not qualify under the Community Development Block Grant program but would qualify for MRF program funds. Mr. Rosine asked whether the infrastructure involved any road construction. Mr. Aceves responded that the infrastructure developments included water and sewer improvements related to the property and confirmed that there was no major road construction necessary at the project.

It was moved, supported, and carried that Resolution 1998-001 awarding tax credits to Alsons Corporation be adopted.

Robert Bosch Corporation
2800 South 25th Avenue
Broadview, Illinois 60153

Chairperson Rothwell asked Mr. Aceves to present the project. Mr. Aceves introduced Gary Saunders, Hans Weckerle, Luke Baer, and Tom Blankenship from Robert Bosch Corporation and Teri Arbenowske from the City of Farmington Hills. Mr. Rothwell asked Greg Burkart to describe the role the MJC played in the development of the project. Mr. Burkart explained that after Bosch purchased Allied Signal, the company considered moving to Farmington Hills. Bosch's parent (in Germany) said that Bosch had to find a lower cost location and a move to South Bend was considered. At that time, the MEGA credit came into play.

Mr. Aceves added that the commitment of the local community was a significant factor in securing the project for Michigan. He asked Ms. Arbenowske, the Farmington Hills Economic Development Coordinator, to describe events leading to the City's grant of a six-year tax abatement for the project. Ms. Arbenowske explained, that in 1981, the city council had granted the only two tax abatements ever given to businesses in the community and they had a strict policy against awarding tax abatements to new businesses since that time. Ms. Arbenowske said that the city council had held extensive discussions on the Bosch project over a seven-week period. While Bosch had been a good corporate citizen and the City wanted to keep the company in the area, the council was not initially inclined to change its policy. However, when MEGA was offered, the City did not want to prevent Bosch from accessing the MEGA program. As a result, the Council voted 6 to 1 in favor of an abatement and will look at future projects that involve partnerships with other government programs.

Project Description

The Robert Bosch Corporation is a global company with approximately 176,000 employees worldwide. The company serves the automotive market through the manufacture and sale of original equipment components/systems for passenger cars and commercial vehicles. The company has 19 facilities operating within the State of Michigan, employing 2,656 people.

The Robert Bosch Corporation plans to construct and furnish a research and development facility in Farmington Hills. In addition, the facility will serve as a headquarters for the Bosch Braking Systems Corporation. The company plans on investing approximately $39,000,000 for the new building, related infrastructure improvements, and equipment. When fully staffed in the year 2002, it is expected that 475 net new jobs will be created in addition to the 95 jobs that will be retained. Annual payroll will exceed $35,000,000 when the facility is operational and fully staffed with an average weekly wage of approximately $1,283.

According to the economic analysis done by the University of Michigan, the facility will generate a total of 826 new jobs in the state by the year 2013. Total state government revenues through the year 2013 would be increased by $55,521,000 in 1998 dollars due to the presence of the Robert Bosch Corporation facility.

Local assistance will be in the form of a 6-year, 50 percent tax abatement valued at $1,536,765.

The annual cost disadvantage for the Robert Bosch Corporation to establish its new research and development facility in Farmington Hills, Michigan, rather than South Bend, Indiana, ranges from approximately $11,000,000 to $800,000 annually over the term of the incentive. The cost differential is primarily due to building costs, utility rates, taxes, and incentives. The company would not consider locating in Michigan without the MEGA tax credit to offset construction, wage, electrical, and tax differentials.

Staff Recommendation

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for 15 years for up to 475 new jobs.

In addition, the Michigan Jobs Commission recommends a business activity credit as follows:

A. 50 percent credit for years 1-3, and
B. 100 percent credit for years 4 & 5.

Board Members' Discussion

Vice Chairperson Porteous gave the report of the Executive Committee, indicating that it was recommending the Robert Bosch Corporation project to the full Board. He said that the Bosch project was a huge one for the State, that would produce large revenue gains. He mentioned how important it was for us to respond as a state to induce Bosch to locate here, pointing out that the presence of the firm's manufacturing facility in South Bend made that a very attractive location. Mr. Porteous noted that this was one of the most expensive proposals MEGA had assembled but that it helped retain our leadership as the center of the automotive industry. Chairperson Rothwell agreed that it was the most expensive in absolute dollars because of the number of high wage jobs involved, but that it was about average in cost per job.

Chairperson Rothwell asked for discussion from the Board. The Board discussed the cost differential between South Bend and Farmington Hills. Most of the cost differential in the first two years was attributed to the construction related costs for the building. Mr. Rothwell mentioned that the total cost differential over the 20-year period would be about $45 million. He also stated that 40 jobs would be moving to Michigan from the South Bend facility and that 435 new jobs would be created in Michigan.

It was moved, supported, and carried that Resolution 1998-002 awarding tax credits to Robert Bosch Corporation be adopted.

Smiths Industries Aerospace
4141 Eastern Avenue, SE
Grand Rapids, Michigan 49518-8727

Chairperson Rothwell introduced Jim Donaldson who in turn introduced Doug Voshell of the MJC. Mr. Voshell introduced Mr. Whipple and Mr. Golko from the project, Mr. Cravens from Cascade Township, and Mr. Kramer and Mr. McAndrew from Coopers & Lybrand. Then Mr. Donaldson summarized the key points from the briefing memo on the project.

Project Description

Smiths Industries is a British-owned company with its United States headquarters in Wyoming, Michigan. The company is a major supplier of avionics systems for commercial and defense uses. Currently, the company employs 859 in Michigan.

This expansion would involve a transfer of certain research and development functions from Florham Park, New Jersey, to Cascade Township. This expansion would result in the addition of up to 105 engineers and technicians in Grand Rapids. The average weekly wage for these new jobs would be at least $1,390. Investment in building renovations would be about $10 million with additional equipment purchases of approximately $7.5 million.

According to the economic analysis done by the University of Michigan, this facility will generate a total of 233 jobs in the state by the year 2009. Total state government revenues through the year 2009 would be increased by $7,816,000 in 1998 dollars due to the presence of the Smiths facility.

The local community has granted a nine-year abatement on the facility and for the new equipment and modifications to accommodate this expansion over the next three years.

While costs such as taxes and utilities are lower in New Jersey, Michigan enjoys a small cost advantage for wages. The difficulties in recruiting employees with the specialized skills needed by Smiths to Michigan will involve significant costs for search, recruitment, and relocation. These costs are estimated to be $6.7 million. Without the MEGA incentive, the company would not incur the recruitment and training costs, unique to Michigan, for any new employees.

<u>Staff Recommendation</u>

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for 10 years and a business activity credit of 100 percent for 10 years for up to 105 net new jobs.

<u>Board Members' Discussion</u>

Vice Chairperson Porteous gave the report of the Executive Committee, indicating that it was recommending the Smiths Industries Aerospace project to the full Board. He said the project would be providing extraordinarily high-paying jobs for West Michigan. If it were not for the MEGA incentives, there was a real threat that the company would locate in New Jersey rather than in Cascade Township because of the company's existing operations there. Mr. Porteous also noted that the Executive Committee was sensitive about not pitting local communities against each other and that this project had been approved by the City of Wyoming. The Executive Committee was also excited about doing a MEGA project in the aerospace industry as a way of promoting diversity in Michigan's industrial base.

Chairperson Rothwell asked for discussion from the Board. The Board discussed whether the project would involve transfers from New Jersey. Mr. Donaldson explained that there was a possibility of that because Michigan lacked the types of engineers needed. One of the Board members also asked what the nine-year local tax abatement would cost and was informed that it would be approximately $1 million.

It was moved, supported, and carried that Resolution 1998-003 awarding tax credits to Smiths Industries Aerospace be adopted.

<u>Brian Unlimited Distribution Company, Inc. (BUDCO) - Amending Resolution</u>

Chairperson Rothwell introduced Jim Paquet who presented the amendment. At its November 18, 1997 meeting, the MEGA granted a tax credit (Resolution 1997-016) to Brian Unlimited Distribution Company, Inc. Subsequently, the company discovered that it had erroneously, but in good faith, estimated that it would pay an average weekly wage of $632. A more accurate estimate of the average weekly wage that would be paid is $484, given the job classifications and tenure of employees likely to be working at the project.

The proposed resolution would revise the tax credit to reflect that the Qualified New Jobs at the project would pay an average weekly wage of at least $484.

Chairperson Rothwell indicated that the staff does its due diligence before bringing projects to the Board, understanding that the quality of jobs created is important. He stated that because this project will be located in Highland Park and because they are still good-paying jobs, he hopes the MEGA will affirm the tax credit to BUDCO.

Vice Chairperson Porteous indicated that he was troubled by this project having to come back to the Board and stated that it was critical that the companies provide good, solid, credible information and figures to staff. He asked whether, if we are trying to establish a policy to ensure this doesn't happen again, shouldn't there be some consequence to the company if the information that the company provided is inaccurate?

Mr. McCormack indicated that he would be inclined to support the company's request, assuming good faith on the company's part and recognizing the importance of the jobs to Highland Park.

Mr. Donaldson indicated that the company had made an honest mistake. He described the review process for the Board but added that ultimately, staff must rely on the numbers the company provides if they are within the range of reasonableness.

Mr. Rothwell expressed his belief that the question to ask was "Would the MEGA Board have awarded a tax credit if the average weekly wage had been accurately reported?" He stated his conclusion that the Board probably would have approved the project at the lower wage.

Mr. Haas asked whether the cost differential between Toledo and Highland Park, which the MEGA credit sought to address, would be significantly impacted by paying lower wages for the Michigan jobs.

Mr. Donaldson responded that he did not have those numbers at hand but that there had been a significant gap to fill in the competition with Toledo. He offered to have staff take a look at the cost differentials given the revised wage numbers.

Several Board members expressed a desire to have further information prior to making a decision and action on the matter was deferred to the March meeting.

An announcement was made that the meeting scheduled for March 10th would need to be rescheduled.

The meeting was adjourned by Chairperson Rothwell at 11:20 a.m.