

*Adopted  
at 5-23-00  
Meeting*

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**PROPOSED MINUTES**

A meeting of the Michigan Economic Growth Authority (MEGA) was held on the 4<sup>th</sup> Floor of the Victor Office Center, at 201 North Washington Square, Lansing, Michigan on February 8, 2000

**Members Present:**

Doug Rothwell  
David Porteous  
Madhu Anderson (acting for and on behalf of Mark A. Murray)  
Phil Kazmierski (acting for and on behalf of James R. DeSana)  
James Garavaglia  
Mary Lannoye (acting for and on behalf of Janet E. Phipps)

**Members Absent:**

Beth Chappell  
John McCormack

**Others Present:**

William V. Adams VP, Technician and QA, Flowserve  
Lance Beck, Director, Customer Service, ACN Communications Services, Inc.  
Kathy Blake, Senior Vice President, Business Development, MEDC  
Barry Brooke, Chief Executive Officer, Southwest Michigan First  
Tim Cain, VP, Strategic Planning & Development, ACN Communications Services, Inc.  
Gerald Corkin, Board Chairman, Marquette County  
Patricia Christian, Manager, Corporation Services, ACN Communications Services, Inc.  
Linda Dankoff, Project Manager – MEGA, MEDC  
Norbert Dieterle, Controller, Behr-Industries Corporation  
Kimberly Davis, Recording Secretary to the MEGA Board, MEDC  
Jim Donaldson, VP, Michigan Business Development, MEDC  
Jerrold Graham, City Manager, Montaque  
John Hoffman, Controller, Hayes Lemmerz International  
David Jeup, VP, Global Business Development, MEDC  
Jeff Kaczmarek, Senior VP, Business Services, MEDC  
Jennifer Kopp, Communications, MEDC  
Penny Launstein, Account Manager, MEDC  
Maria Manning, Director, Human Resources, ACN Communications Services, Inc.  
Kim McDonald, Chief Operating Officer, ACN Communications Services, Inc.  
Kathleen McMahon, Communications Director, MEDC  
Antonio Mitchell, Business Assistance Specialist, City of Kalamazoo  
Jim Paquet, Secretary to the MEGA Board, MEDC  
David J. Roberts, Manager, County Commission, Marquette County  
Tom Schimpf, Assistant Attorney General, Michigan Attorney General's Office  
Brad Shafer, Senior Engineer, Hayes Lemmerz International  
Francis Soave, Transcorp Advisors

Tom Tarleton, Account Manager, MEDC  
Mary Tavernini, President, M. Tavernini & Associates

### **Call to Order**

The meeting was called to order by Chairperson Rothwell at 10:07 a.m.

### **Adoption of the Minutes from the January 25, 2000 Meeting**

It was moved, supported, and carried that the minutes from the January 25, 2000 meeting be adopted.

### **Public Comment**

Gerald Corkin, Board Chairman, Marquette County, thanked MEDC for all its efforts and support.

Prior to commencing with the agenda items, Chairperson Rothwell asked individuals in the room to introduce themselves and their affiliations.

### **Action Items**

***ACN Communications Services, Inc.  
32991 Hamilton Court  
Farmington Hills, Michigan 48334***

Kathy Blake from the MEDC presented the project, summarizing the key points from the briefing memo.

### **Project Description**

American Communications Network, Inc. (ACN), established in 1992, is a reseller of telecommunication services including long distance telephone, paging, cellular and intranet services as well as the resale of gas and electric utility services. The company currently has 232 employees in Michigan.

ACN is positioning itself to be a major player in the U.S. long distance telephone service market. To accomplish that goal, the company must invest in a new inbound customer service call center in North America to provide a high level of customer service to new long distance accounts being activated as of April 1, 2000. The call center will be operated by ACN Communications Services, Inc.

The company plans to lease 30,000 square feet for this customer service call center as well as leasehold improvements of approximately \$1.5 million. In addition, approximately \$11.3 million in equipment will be installed into the facility, for a total

capital investment of approximately \$16 million. The call center would hire 103 employees in the first year, and by the sixth year have a total of 750 employees. Average weekly wage of these new hires will be \$474, as well as a benefit package equal to approximately ten percent of wages.

The company is considering locating this facility in Marquette County Michigan at K. I. Sawyer Air Force base, or in a facility in Fort Myers, Florida. Both of these facilities meet the requirements of the project and can be moved into immediately.

It is estimated that the facility will generate a total of 943 jobs in the state by the year 2012. Total state government revenues, net of MEGA costs, would be increased by \$22,013,000 due to the presence of the ACN Communications Services, Inc. project.

Based on figures obtained from the company, the cost disadvantage to site the call center in Marquette rather than Fort Myers ranges from \$200,000 to \$1 million annually over the term of the incentive. The most significant factor in this differential is wages.

The state of Michigan will provide ACN Communications Services with tax savings generated by being located in one of the state's Renaissance Zones. The total savings in state property taxes for the company over the 15-year life of this Renaissance Zone is \$161,593. The company will also be saving approximately \$3,118,971 in state Single Business Tax. In addition, the state will offer job training assistance of \$400,000 for up to 750 net new jobs.

Sands Township will be providing the company with property tax relief valued at \$929,674. In addition, the County of Marquette has agreed to invest \$1,037,000 towards leasehold improvements to the building, amortize tenant improvements of \$200,000 at one percentage point below prime rate over a five-year period, and will authorize an additional \$130,000 to fund heating, ventilation and air conditioning related costs.

Even with the savings generated by the company choosing a Renaissance Zone as its preferred Michigan site, the six percent wage rate differential still tips the scales in favor of Fort Myers, Florida from a cost perspective. We will not be able to fill this gap with a MEGA incentive, however, offering a MEGA package will send a message to the company that Michigan is trying to be aggressive in recruiting this operation. The local economic development agency has really "stepped up to the plate" to land what would be its third largest employer. The company has expressed feeling very welcome in Marquette.

## **RECOMMENDATION:**

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 750 net new jobs for a period of five years and 75 percent for the next seven years.

## **Board Discussion**

David Porteous gave the report of the Executive Committee. He stated that this is a huge project for the Upper Peninsula and Marquette County. It could become one of the largest employers in the U.P. The cost differences seem very real. Florida has an interesting competitive advantage in that it has retirees who are willing to work for modest wages. The commitment and assistance from local community is an important factor, and is reinforced by the number of people that are present at this meeting in support of the project.

Mr. Garavaglia inquired about the company's growth and the need for new employees. Kim McDonald, the company's COO, responded that revenues had grown from 2 million to 100 million and that the employees would be needed to service 1,000,000 new customers.

David Porteous clarified his understanding that the company buys long distance telephone services in bulk at a discount and resells the services to consumers. Most customers are residential, but they also have commercial customers.

Mr. Corklin, Chairman of the Marquette County Board of Commissioners, stated that the business is very important to Marquette County, which has lost a lot of jobs. The project would mean up to 750 new jobs and be a morale booster.

Chairperson Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported, and carried that Resolution 2000-005 awarding tax credits to ACN Communications Services, Inc. be adopted.

**Hayes Lemmerz, International  
15300 Centennial Drive  
Northville, Michigan 48167**

Chairperson Rothwell asked Jim Donaldson to present the project. Mr. Donaldson summarized the key points from the briefing memo.

## **Project Description**

Hayes Lemmerz International is a manufacturer for the automotive and heavy truck industries. Products are wheels, hubs, drums, wheel end attachments and assemblies, undercarriage components and powertrain components. The company currently has 12 facilities in Michigan employing over 2,400.

Hayes Lemmerz International needs to construct a new casting center for the production of aluminum knuckles, crossmembers and control arms. These products will go from raw aluminum ingot to machined product ready for assembly.

Capital expenditures required include \$20 million in building and \$55 million in equipment purchases. By the end of 2003, the facility would employ 200. The jobs created in the first year will pay an average weekly wage of \$525 and a benefit package totaling 31 percent of wages.

The company has narrowed its choices to two options for the site of this new facility, Montague, Michigan and Wabash, Indiana.

It is estimated the project will generate a total of 539 jobs in the state by the year 2020. Total state government revenues, net of MEGA costs, would be increased by \$32,017,000 due to the presence of the Hayes Lemmerz International facility.

Based on figures obtained from the company, the cost disadvantage of Hayes Lemmerz International to locate this new facility in Montague, Michigan rather than Wabash, Indiana ranges from \$400,000 to \$1.3 million annually over the term of the incentive. The most significant factors in this differential are wages and taxes.

The state of Michigan will provide a 100 percent abatement of the six-mill State Education Tax with an estimated value of \$1,750,457. In addition the state will provide job training assistance to the company for up to 200 new hires, for a total of \$100,000. A Community Development Block Grant in the amount of \$662,000 will assist the company with infrastructure improvements required at the site.

The city of Montague will provide the company with a 50 percent property tax abatement for a period of 12 years. The estimated value of this abatement is \$11,921,799. The city is also committing \$104,860 for infrastructure improvements on the site.

Either the Montague or Wabash facilities can accommodate this expansion. The company prefers the Montague location where it would have brand new buildings to house its state-of-the-art equipment, however, needs the assistance of the MEGA program to help alleviate the identified cost differential.

#### **RECOMMENDATION:**

The Michigan Economic Development Corporation recommends a MEGA employment credit of 75 percent for up to 200 net new jobs for a period of 12 years and a business activity credit of 100 percent for a period of 20 years.

## **Board Discussion**

Mr. Porteous gave the report of the Executive Committee. He cited the project as a great example of the flexibility and diversity of MEGA. Small rural towns in Michigan, which are remote from the auto industry and transportation corridors, struggle to keep business and to attract projects like this. Indiana is a major competitor. MEGA is closing only part of the gap in wages and taxes.

This project is huge from an investment standpoint. The community is stepping up with tax incentives and is helping all it can which was critical to gaining our support.

Chairperson Rothwell asked if there were any questions from the Board. There being none, it was moved, supported, and carried that Resolution 2000-007 awarding tax credits to Hayes Lemmerz, International be adopted.

***Flowserve FSD Corporation  
2100 Factory Street  
Kalamazoo, Michigan 49001***

Chairperson Rothwell asked Jim Donaldson to present the project. Mr. Donaldson summarized the key points from the briefing memo.

## **Project Description**

Flowserve FSD Corporation is involved in research and development, engineering, and manufacturing of mechanical seals and sealing systems for rotating equipment, such as pumps and mixers, used in a variety of industries. Flowserve currently has 398 employees in Michigan; 362 at the Kalamazoo facility, 32 in Lake Ann, and four in Midland.

Flowserve has announced that it will close ten of its current manufacturing facilities and consolidate some of these jobs into other facilities in the U.S. Although the Kalamazoo facility is not slated for closure, it has the opportunity to attract some of these manufacturing jobs and strengthen its base of operations in Kalamazoo. In addition to manufacturing jobs, some CAD/CAM engineering jobs would follow. The CAD/CAM jobs are technician-level engineering jobs that could be performed anywhere in the world.

Capital investment for the project will include \$500,000 for building improvements and \$12 million in new equipment or equipment transferred from other states. Renovations to the facility would begin as early as February 2000. The company would begin to transfer employees into Michigan, with the first 75 jobs in place by September 2001. The company plans to transfer or hire a total of 125 people by 2003. The jobs will pay an average weekly wage of \$827 with a benefit package of approximately 20 percent of wages.

It is estimated the facility will generate a total of 214 jobs in the state by the year 2020. Total state government revenues, net of MEGA costs, would be increased by \$14,525,000 due to the presence of the Flowserve FSD Corporation facility.

Based on figures obtained from the company, the cost disadvantage for Flowserve to consolidate operations in Kalamazoo rather than Tlaxcala, Mexico ranges from \$1 million to \$3 million annually over the term of the incentive. The most significant factor is wages, which are much less in Mexico than in Michigan.

The state of Michigan will provide Flowserve with a 100 percent abatement of the six-mill State Education Tax valued at \$151,715. In addition, the state will provide job training assistance for up to 487 jobs valued at \$306,000. The city of Kalamazoo will provide a tax abatement for 12 years on real property and six years on personal property valued at \$745,954.

The company's desire to cut costs makes it difficult to justify consolidation in Michigan. However, Flowserve recognizes that moving the operation to Mexico will result in a large increase in intangible costs. The Kalamazoo facility offers a strong base for the company's engineering resources and the synergy of expanding in Kalamazoo presents a significant advantage. The company also recognizes that Michigan has excellent resources in technical training and advanced engineering. Flowserve would like to consolidate in Kalamazoo but needs assistance from the state to alleviate some of the cost differential.

#### **RECOMMENDATION:**

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 125 net new jobs for a period of 10 years and 50 percent for the next 10 years. In addition, a business activity credit of 100 percent for 10 years and 50 percent for the next 10 years is recommended.

#### **Board Members' Discussion**

Mr. Porteous gave the report of the Executive Committee. He indicated that of all the projects presented today this one involved the most discussion. It was hard to believe the cost differential could be offset by the MEGA. Mr. Rothwell asked the company to comment.

William Adams, Flowserve's representative, gave some background information. The company was formed in 1917 with 450 employees. It merged 5 years ago, the Durco merger, and lost low cost manufacturing to Mexico and India. If we receive the MEGA grant we can end the drain of engineers from Kalamazoo. With a significant contribution from the state, we can make the economics work.

Mr. Porteous asked how could that be with a cost differential between 1 million and 3 million annually?

Mr. Adams responded that with tax reductions, training, education, and the availability of entry level engineers in the Kalamazoo market, a saleable package could be presented to corporate management. Mr. Rothwell added that the skill level of employees was more at the technician level than the professional engineering level.

Mr. Adams continued that most of the engineering work is done on CAD. At Christmas time last year we were told we faced a 9% cut in employment. We worked with the City of Kalamazoo and others to come up with a plan to keep that from happening. We put together a plan for lean manufacturing. Our overall proposal was worth \$10 million in savings. Other facilities had no plan and we stood out to the corporate decision makers. Mr. Brooke of Southwest Michigan First added that it had flown the Dean of Western Michigan University's engineering school to the company's corporate headquarters to meet with its entire technical staff to talk about tech transfer and other advantages that Kalamazoo presented. Mr. Adams concluded that as a result, the company sees southwest Michigan as a good place to do business.

Mr. Porteous thanked Mr. Adams for his comments.

Chairperson Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported, and carried that Resolution 2000-006 awarding tax credits to Flowserve FSD Corporation be adopted.