PROPOSED MINUTES

A 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 May 23, 2000 at 1:00 p.m.

Members Present:
Beth Chappell (by telephone)
Craig DeNooyer
Sarah Deson-Fried
Mary Lannoye (acting for and on behalf of Janet E. Phipps, authorization attached)
Mark Murray
Doug Rothwell
Tim Ward

Members Absent:

James DeSana

Others Present:
Karen Ammarman, MEGA, MEDC
Peter Anastor, MEGA, MEDC
Eric Bacher, Engr. Mar., The Minute Maid Company
Jon Bingel, Executive Director, St. Joseph County EDC
Kathy Blake, Senior Vice President, Business Development, MEDC
Helga Conrad, Account Manager, MEDC
Linda Dankoff, Senior Project Manager, MEGA, MEDC
Jim Donaldson, Vice President, Business Development, MEDC
Tracy Freeman, Account Manager, MEDC
Jeff Horner, Citizens Research Council of Michigan
David Jeup, Vice President, Global Business Development, MEDC
Jennifer Kopp, Communications, MEDC
Patricia Lancaster, Vice President, American Axle & Manufacturing
Amy Lane, Reporter, Crain's Detroit Business
Corey Leon, Account Manager, MEDC
Karen Manard, Media Relations Manager, American Axle & Manufacturing
Kathleen McMahon, Communications Director, MEDC
Rick Montague, Director – Mid-west Operations, The Minute Maid Company
Jim Paquet, Secretary to MEGA Board, MEDC
Patricia Peters, Paw Paw Township Treasurer
Jerry Reshman, Paw Paw Township Supervisor
Dan Schafer, Director, Public Affairs, The Minute Maid Company
Tom Schimpf, Assistant Attorney General, Michigan Attorney General's Office
Sten Sjoberg, President, SSAB HardTech, Inc.
Vern Taylor, MEDC
Duane Thelen, MEDC

Mark Thomas, Economic Development Agency, VanBuren County
James Tomlinson, Administrative Manager, The Minute Maid Company
Trygve Vigmostad, Director – Program Development, The Christman Company

Call To Order

Chairperson Rothwell called the meeting to order at 1:05 p.m.

Adoption of the Minutes from the February 8, 2000 Meeting

It was moved, supported and carried that the minutes from the February 8, 2000 meeting be adopted.

Public Comment

There were no comments from the public.

Election of Officers

Doug Rothwell introduced the three new MEGA Board members: Tim Ward, Sarah Deson-Fried and Craig DeNooyer. Jim Paquet then gave a brief overview of the MEGA meeting process for the benefit of the new members.

Chairperson Rothwell indicated that with the departure of David Porteous, it was necessary to elect a new Vice Chairperson of the MEGA whom would also serve as the Chairperson of the Executive Committee.

Mr. Rothwell moved to nominate Tim Ward to serve as Vice Chair of the MEGA and Chair of the Executive Committee. The motion was seconded and passed.

Action Items

American Axle and Manufacturing, Inc.
1840 Holbrook
Detroit, Michigan 48212-3488

Jim Donaldson presented the project.

American Axle & Manufacturing, Inc. (American Axle), is a manufacturer of axles for use in light trucks and sport utility vehicles. The company has a total of 8,950 employees, 5,851 of who are in Michigan.

American Axle plans to add axle capacity at one of its many manufacturing facilities. The Mexico facility has some excess capacity. The company currently operates a facility in Three Rivers, Michigan employing 875 people that could be expanded.

The company would invest $73.2 million in building improvements and machinery and equipment. New jobs would total up to 233 over a three-year period at an average weekly wage of $586 and a benefit package of approximately 45 percent of wages. Building construction would begin in January 2001 and be complete by July 2001. Production at the facility would begin in September 2001.

We estimate this facility will generate a total of 508 jobs in the state by the year 2015. Total state government revenues through the year 2015, net of MEGA costs and adjusted for inflation, would be increased by $15,448,000 (2000 dollars) due to the presence of the American Axle facility.

Based on figures obtained from the company, the cost disadvantage for American Axle to site this expansion in Michigan rather than Mexico amounts to approximately $6,000,000 annually over the term of the incentive. The most significant factor in this differential is wages. In Mexico, the company currently pays workers $4 per hour plus fringes. In Michigan the company pays $14 per hour plus fringes.

The State of Michigan will provide American Axle a 100 percent abatement of the 6-mill State Education Tax. It is estimated that the value of this abatement will be $1,180,223. In addition, the state will offer job training assistance of $700 each for up to 233 net new jobs, or a total of $163,100. The City of Three Rivers will be providing the company with a 50 percent abatement of the local property taxes for a period of 12 years, estimated to be worth up to $5,512,960.

The company conducted both a cost analysis and a strategic analysis of where would be best to site this expansion. The strategic analysis pointed to two main reasons why the company should explore the Three Rivers alternative. First, the Three Rivers facility has a long history of having an exemplary workforce. Second, the company feels that a secondary source of supply in the U.S. might better ensure the company's long-term success. These strategic reasons alone, however, were not enough to convince the company to put the project in Michigan. The incentive package makes the Three Rivers alternative viable.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 233 net new jobs for a period of fifteen years, and a business activity credit of 100 percent for a period of fifteen years.

Board Discussion

Mr. Rothwell gave the report of the Executive Committee. American Axle had been before the committee twice.

The size of the cost gap between Michigan and Mexico led the committee to question how the company could justify locating in Michigan. Further information from the company indicated that there was tremendous pressure from OEM to cut prices making Mexico more attractive. That was, in part, offset by the company's desire to have a secondary source of production to Mexico in the U.S. Cooperation of the union workforce and the incentives provided by state and local governments, which covered about 25 percent of the cost gap, were enough to swing the value of the total incentive package. The total was approximately $24 million.

Mr. DeNooyer asked the value of the total incentive package. The total was approximately $24 million. Mr. DeNooyer asked about the Brownfield-Greenfield requirement. Mr. Rothwell responded that in this case, the project would involve the expansion of an existing facility.

Chairperson Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-008 awarding tax credits to American Axle and Manufacturing, Inc. be adopted.

Action Item

The Coca-Cola Company
P. O. Box 1734
Atlanta, Georgia 30301

Jim Donaldson presented the project.

The Coca-Cola Company operates in nearly 200 countries worldwide. Through a division, The Minute Maid Company, the company manufactures and distributes juice and other non-carbonated beverage products at its only facility in Michigan, located in Paw Paw. This plant currently employs 471 and expanded here in 1998 because of a MEGA incentive package.

The Coca-Cola Company needs to expand an existing manufacturing operation and the company is considering expansion of either its Waco, Texas or its Paw Paw, Michigan Minute Maid facility.

The expansion would result in a capital investment totaling $49 million. In Michigan, the expansion requires an additional expenditure of $5.2 million in a wastewater treatment system to service the facility.

The company would hire an additional 150 workers over the next three years. The average weekly wage would be $631 and employees would receive a benefit package equal to approximately 34 percent of wages.

Construction of the new production lines would begin in June of 2000 and the new lines would be operational by no later than April of 2001. The company would have 85 additional workers by the end of 2001 and 150 by the end of 2002.

We estimate this facility will generate a total of 333 jobs in the state by the year 2017. Total state government revenues through the year 2017, net of MEGA costs and adjusted for inflation, would increase by $17,493,000 (2000 dollars) due to the presence of The Coca-Cola Company's facility.

Based on figures obtained from the company, the cost disadvantage for The Coca-Cola Company to site this expansion in Michigan rather than Texas ranges from $200,000 to $800,000 annually over the term of the incentive.

The most significant factor in this differential is wages. After the local abatement expires in Michigan, property taxes become a significant factor in the cost gap.

The State of Michigan will provide The Coca-Cola Company a 100 percent abatement of the 6-mill State Education Tax valued at $1,149,758. In addition, the state will offer job training assistance of $500 each for up to 150 new jobs, for a total of up to $75,000. A Community Development Block Grant in the amount of $750,000 will be provided to help the company offset some of the up-front expense involved in constructing the wastewater treatment plant required at the Michigan site.

Paw Paw Township will be providing the company with a 50 percent abatement of the local property taxes for a period of 12 years, estimated to be worth up to $5,119,289.

When it was determined that a new wastewater treatment system would need to be constructed, it seriously impacted the company's decision-making process, causing the scales to tip in favor of the Texas location. This incentive package is absolutely required in order for the project to be located in Michigan.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 150 net new jobs for a period of seventeen years, and a business activity credit of 100 percent for a period of seventeen years.

Board Discussion

Chairperson Rothwell gave the report of the Executive Committee. He indicated that the MEGA credit was being used to close a cost gap due to the need for a $5.2 million wastewater treatment facility in Michigan. The flexibility of the MEGA program permitted a positive response to the company when CDBG funds were unavailable.

Mr. DeNooyer asked if the treatment facility would benefit the company's neighbors. Mr. Donaldson answered that it would not; that the involvement of a municipality in the facility would have significantly complicated the project. Mr. DeNooyer asked if the facility was sized to meet Coke's needs. The company responded that it would allow production to double and that it might be open to sharing the facility's capacity, but would have to evaluate that on a case-by-case basis.

Chairperson Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-012 awarding tax credits to The Coca Cola Company be adopted.

BEHR America, Inc. – Transfer of Credits

Mr. Paquet presented the BEHR transfer to the Board.

In May 1999, the MEGA awarded a tax credit for the construction of a facility in Webberville, to house engineering, manufacturing and sales and other functions related to the production of thermal control clutch and fan assemblies of the company's Fan and Clutch Systems division. Construction of the facility has been completed and hiring has commenced.

In December 1999, the MEGA awarded a tax credit for construction of BEHR's U.S. Headquarters and Technical Center in Troy. Construction has not begun.

Both of the credits were awarded to BEHR America, Inc., which is the holding company for BEHR's operating companies and has no employees. BEHR has since determined that both projects will be operated by BEHR Climate Systems, Inc., a wholly owned subsidiary of BEHR America, and has requested that both the tax credits awarded by the MEGA be transferred to BEHR Climate Systems.

The MEDC staff is recommending that the credits be transferred to BEHR Climate Systems, Inc., and that the base employment level in both credit agreements be adjusted to reflect the number of base jobs in Climate Systems at the time of the original application for the tax credits. The jobs base for the first project would increase from 30 to 36. The jobs base for the second project would increase from 30 to 44.

Chairperson Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-009 transferring and amending the BEHR America tax credits be adopted.

Engineered Machined Products, Inc. – Amending Resolution

Mr. Paquet presented the amendment to the Board.

Engineered Machined Products, Inc. (EMP) is an Escanaba based company that provides machined products including crankshaft spindles, water pumps, oil pumps and other parts for the automobile and heavy truck industries.

In October of 1998, the MEGA awarded a credit for expansion of the company's manufacturing and research and development operations and the addition of 175 new jobs. By February of this year, EMP had completed construction of a 30,000 square foot R&D facility, broken ground for its 93,000 square foot manufacturing facility and created 81 qualified new jobs.

EMP has historically worked closely with the Delta Intermediate School District's School to Work program and Bay De Noc Community College to develop a skilled workforce. At the time of its original application to the MEGA, the company erroneously counted individuals who were participants in its various education and training programs as full time employees. Because those employees worked less than the required 35 hours per week needed to qualify as full time employees under the MEGA statute, they should not have been counted in the company's jobs base.

The MEDC staff is recommending that EMP's Base Employment Level be adjusted to 256, eliminating 31 part time employees that were erroneously included in the company's base.

Mr. Rothwell asked whether staff had verified that the error had occurred. Mr. Paquet replied affirmatively.

Chairperson Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-010 amending the base employment level of the Engineered Machined Products, Inc. tax credit be adopted.

SAAB HardTech, Inc. – Amending Resolution

Kathy Blake introduced Tracy Freeman, who introduced the President of SSAB Sten Sjoberg. Ms. Blake presented the amendment to the Board.

SSAB HardTech, Inc. is wholly owned by SSAB Group in Luliea, Sweden and is represented in the United States only by the Mason facility. The company is a full service supplier to the automotive industry with a research and development center that supports new product development, crash simulation and testing, and software development.

SSAB HardTech, Inc. in Mason is requesting an extension of the anniversary date for its MEGA tax credits which were awarded in November of 1996. The current anniversary date is June 2000. The Company has 50 employees and doesn't expect to make the 150 job creation commitment by June for two reasons. First, the company lost a major Ford contract. Second, the company has had a difficult time finding workers. The company is working with Michigan State University, Lansing Community College, and the local high schools to recruit workers.

Staff is recommending that the anniversary date be extended to June 2002; however, we also recommend that the final date to utilize the company's tax credits not be extended beyond the 2020 tax year.

The extension of the MEGA anniversary date would allow the company to fully recover from the unforeseen loss of the Ford contract and would make an allowance for the struggle Michigan companies have encountered in trying to hire individuals in a tight employment market.

Chairperson Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-011 amending the SSAB HardTech, Inc. be adopted.

<u>Policy Discussion – Residency Requirement for Jobs Receiving MEGA Credits</u>

Mr. Rothwell initiated the discussion.

The MEGA statute requires that in order to qualify for a tax credit, an authorized business must create a minimum number of new jobs within one year of locating or expanding within the state as determined by the Authority. The minimum number of jobs required varies from 25 for certain distressed areas, to 75 for companies expanding within Michigan, to 150 for companies locating here for the first time.

Over the past five years, we have followed a policy of counting only those jobs held by Michigan residents as qualifying to meet the minimum job requirement. The failure of a company to meet the minimum job requirement in any given year of a multi-year credit award meant the loss of the credit for that year.

In some cases, where companies located near the state border draw employees from other states, the residency requirement has been a problem. For example, La-Z-Boy, Inc. recently received a tax credit for an expansion in Monroe. If the company maintains its historical mix of Michigan and Ohio employees, it risks not qualifying for the credit.

The discussion of the problem has generated three options. Option 1 is to award a proportional credit for a probationary period. A company would qualify for a credit even if some of the minimum number of jobs it created were held by non-Michigan residents. The credit it received would be proportional to the number of Michigan residents holding the required minimum number of jobs. The proportional credit would be available for a limited number of years, as determined by MEGA on a case-by-case basis. After the probationary period; the company would lose the credit for any tax year in which the minimum number of new jobs were not held by Michigan residents.

Option 2 is maintenance of the existing policy. A company would not qualify for or receive credit any year unless all the minimum number of jobs were held by Michigan residents.

Option 3, which is being recommended to the MEGA, is to allow a company to qualify for and receive a credit proportional to the number of minimum required jobs that are held by Michigan residents, without a time limit. This option would provide an incentive to companies to hire as many Michigan residents as possible, without penalizing the company if labor market dynamics led to some jobs being held by residents of other states.

Mr. DeNooyer asked if the change would apply only in specific counties or to all MEGA deals. Mr. Paquet responded that the staff had considered limiting the application of the new policy to border counties, but had decided against that approach. An analysis of the approximately 80 deals done to date showed that only 2 companies had been affected thus far, and only 3 more appeared to be at risk among the 17 deals in border counties so the companies likely to be affected were few in number. Second, if a company in one county removed from the border were to have some problem, we would be hard pressed not to address it in the same way.

Mr. Rothwell indicated that there were two projects which could not be landed for southwest Michigan because the companies feared they might not qualify for a credit under the existing policy. Mr. Donaldson added that competition for projects was most intense with Indiana and Ohio and the uncertainty raised by the residency policy could be decisive.

Mr. DeNooyer asked whether it was appropriate to implement the new policy and review it after one year to determine whether it was working well. Mr. Rothwell indicated it would be a good idea. He added that the review should not change the rules once a company had qualified. Mr. Schimpf stated that the rule applicable to each company would be in its Agreement.

Mr. Paquet added that the change would only affect those projects that were creating some number close to the legally required minimum number of jobs. A company that was going to create substantially more jobs than the 75 job minimum, for example, would not likely be at risk for losing a year of its credit.

It was moved and seconded and the motion was adopted that it would be the MEGA's policy to allow a company to qualify for its MEGA tax credit(s) notwithstanding that some of the minimum number of new jobs that it created were held by non-Michigan residents. Tax credit(s) would continue to be calculated solely on the payroll paid to employees who are Michigan residents. The policy would apply to recipients of past credits as well as prospectively. The policy would be subject to review by the MEGA after one year.

The meeting was adjourned at 2:00 p.m.

STATE OF MICHIGAN

JOHN ENGLER, Governor

DEPARTMENT OF MANAGEMENT & BUDGET

P.O. BOX 30026, LANSING, MICHIGAN 48909

~~MARK A. MURRAY, Director~~

JANET E. PHIPPS, Director

January 22, 1998

Mr. Doug Rothwell
Chief Executive Officer and Department Director
Michigan Jobs Commission
201 N. Washington Square
Lansing, Michigan 48913

Dear Mr. Rothwell:

I hereby designate Mary Lannoye, the Director of the Office of the State Budget, to represent me all future MEGA meetings.

Sincerely,

Janet E. Phipps
Director

JEP/cal

cc: Nancy Patera