

ADOPTED MINUTES

A meeting of the Michigan Economic Growth Authority (MEGA) was held at the Michigan Economic Development Corporation, 300 N. Washington Square, on May 27, 2003 at 3:00 p.m.

Members Present

Cullen DuBose

Bo Garcia

Mark Haas (acting for and on behalf of Jay Rising, authorization attached)

David Hollister (acting for and on behalf of Mitch Irwin, authorization attached)

Denise Ilitch

Faye Nelson

Jackie Shinn (acting for and on behalf of Gloria Jeff, authorization attached)

Others Present

Peter Anastor, MEDC

Kathy Blake, Sr. Vice President, Business Development, MEDC

Al Bogdan, Wayne County

Jay Cravens, Cascade Charter Township

Bryce Currie, V.P., Six Sigma (TRW)

John Czarnecki, MEDC

Ray DeWinkle, The Right Place, Inc.

Jim Donaldson, MEDC

Dan Foster, Ernst & Young

Thomas Geglio, Smiths Aerospace, Inc.

Mark Hornbeck, Detroit News

Mike Hudson, Detroit News

Jeff Kaczmarek, MEDC

Carol Knobloch Johns, MEDC

Sabrina Keeley, COO, MEDC

Paul Krepps, MEDC

Corey Leon, Detroit Economic Growth Corporation

Dennis McAndrew, Ernst & Young

Peggy McNichol, Ernst & Young

Ron Moffett, MEDC

Mark Morante, MEDC

Jim Paquet, Secretary to the MEGA Board

Mike Pohnl, MEDC

Matthew Rick, Assistant Attorney General

Tom Schimpf, Assistant Attorney General

Vern Taylor, MEDC

Randy Thelen, MEDC

Doug Voshell, MEDC

Harry Whalen, MEDC

Call to Order

David Hollister called the meeting to order at 3:06 p.m.

Approval of Minutes from April 15, 2003

A motion was made, supported and carried that the minutes from the April 15, 2003 meeting be adopted.

Public Comment

There was no public comment.

ACTION ITEM

*Smiths Aerospace, Inc.
3290 Patterson Avenue, S.E.
Grand Rapids, Michigan 49512*

Jim Donaldson began the presentation by introducing Thomas Geglio from Smith's Aerospace, Jay Cravens from Cascade Charter Township and Ray DeWinkle from The Right Place Program. Mr. Geglio briefed the board on the proposed project for creation of an integrated laboratory to design, study and test avionics systems and mission management systems for future military aircraft. The project would locate in an existing facility in Cascade Township, where the company would lease 44,000 square feet. Smiths Aerospace would add 55 new jobs in the first year of the project and 120 new jobs over three years, paying an average weekly wage of \$1,000.

Capital investment for the project would total \$5.4 million, including \$2.6 million for building improvements and lease costs and \$2.8 million for new computers, furniture and fixtures, and test equipment. Operations at the new facility would begin in August of 2003.

It is estimated that this facility will generate a total of 214 jobs in the state by the year 2011. Total state government revenues through the year 2011, would be increased by \$4.6 million due to the presence of this facility.

Smiths Aerospace has the option of locating the expansion at a facility it operates in Germantown, Maryland that has excess capacity. In Michigan, an expansion would require additional space, increasing the costs of lease payments and building upgrades. This differential could be as much as \$325,000 per year. In addition, the company would face higher business taxes in Michigan.

The company will be eligible, based on the private investment numbers it provided, for an Investment Tax Credit worth approximately \$10,500.

Cascade Township has approved a 50 percent abatement of the company's new personal property taxes for 10 years. The estimated value of this local abatement is \$116,700. The abatement was approved on April 30, 2003.

Mr. Cravens offered words of support for the project on behalf of Cascade Township. Mr. DeWinkle from The Right Place Program also spoke up in support of the project for the community.

Recommendation

The Michigan Economic Development Corporation recommends a high-technology employment credit of 100 percent for nine years for up to 120 net new employees.

Board Discussion

David Hollister gave the Executive Committee report. On behalf of the MEGA Executive Committee, Mr. Hollister recommended approval by the MEGA Board.

Hearing no further discussion, a motion was made and supported, and Resolution 2003-11, approving a MEGA tax credit for Smiths Aerospace, Inc., was adopted.

ACTION ITEM

*City of Detroit Brownfield Redevelopment Authority
211 West Fort Street, Suite 900
Detroit, Michigan 48226*

John Czarnecki briefly explained aspects of the Brownfield Redevelopment Program for the new board members. Tom Schimpf clarified the school tax capture aspect by stating that local schools don't lose any tax revenues, as the state makes up the difference. John Czarnecki introduced Corey Leon from the Detroit Economic Growth Corporation. Mr. Leon explained the work plan proposed for Seven Mile Road and Gratiot Avenue.

The corner of Seven Mile Road and Gratiot Avenue is emerging as a retail destination on Detroit's east side. In recent years, a Kroger and a Walgreens have located there. The City of Detroit and a neighborhood non-profit, Detroit Community Initiatives, are seeking to strengthen and enhance these retail offerings. The project site has been a blighting influence on the area.

The property under consideration consists of six parcels of property that contain three existing buildings. The \$6 million development plan calls for the construction of nearly 36,000 square feet of new retail space adjacent to the Kroger grocery store. The development is expected to create 75 new retail jobs.

The \$517,500 request is to be used for demolition and site preparation activities.

The project is eligible to apply to Treasury for a Brownfield Single Business Tax Credit. The project has also been approved by MDEQ for \$167,215 in environmental activities.

There are 63.1289 mills available for capture, with school millage equaling 24 mills (38%) and local millage equaling 39.1289 mills (62%). The tax capture breaks down as follows:

School tax capture 38%	\$196,650
Local tax capture 62%	<u>\$320,850</u>
	\$517,500

PROJECT COSTS

Demolition	\$420,304
Site Preparation	\$ 24,000
Work Plan Preparation & MEDC Administration	<u>\$ 6,550</u>
Subtotal	\$450,854
Interest Expense	\$ 0
Contingency (15%)	<u>\$ 66,646</u>
Total	\$517,500

The property, formerly used for commercial purposes, is a facility and is located within the boundaries of the City of Detroit, a qualified local governmental unit. The project is the subject of a brownfield plan duly approved on September 11, 2002, by the Detroit City Council.

Recommendation

The Michigan Economic Development Corporation recommends approval in the amount of \$517,500 for the demolition and site preparation activities described above.

Board Discussion

David Hollister gave the Executive Committee report and recommended board approval of the work plan.

Mark Haas questioned the Department of Environmental Quality's (DEQ) involvement. John Czarnecki explained that the DEQ has responsibility for approval of school tax capture for due care and response activities related to environmental contamination. DEQ has approved a work plan for capture of \$167,215 for the project.

Hearing no further discussion, a motion was made and supported, and Resolution 2003-12, approving school tax capture by the City of Detroit Brownfield Redevelopment Authority for the Seven Mile Road/Gratiot Avenue redevelopment, was adopted.

ACTION ITEM

*Wayne County Brownfield Redevelopment Authority
600 Randolph
Detroit, Michigan 48226*

John Czarnecki introduced Al Bogdan, the planning director for Wayne County. Mr. Bogdan explained the project which would redevelop a six-block stretch of blighted property into a mixed-use development. The \$10 million project will entail 56 for-sale townhouse units, a full service childcare center, and a neighborhood-scale retail center.

Historically, Salliotte Avenue served as a neighborhood collector street and provided an abundant amount of neighborhood retail services. As the neighborhood declined in population and spending power, the demand for retail diminished. The abandonment and blight of the commercial corridor in turn led to further residential vacancies.

The International Gospel Center (IGC) is located at the midpoint along the corridor and has taken a very proactive stance in revitalizing the neighborhood. The IGC has acquired over 50 parcels of land along Salliotte Avenue and removed a number of dangerous buildings from the neighborhood.

To facilitate this redevelopment, it is necessary to demolish several blighted buildings and rebuild the street and sidewalk infrastructure. The \$950,000 work plan request will cover demolition and infrastructure. To finance the infrastructure improvements, Wayne County will issue a limited obligation bond for each of the three phases of construction. The bonds will be paid back with the brownfield tax increment financing. Over the life of the bonds, the capture necessary to pay back the debt, including interest, is estimated at \$1,083,773. The breakdown is as follows:

PROJECT COSTS

Demolition	\$ 47,000
Infrastructure (repave alleyways, curb and gutter, Sidewalks, street lighting, etc)	\$ 804,275
Work Plan Preparation	\$ 6,000
Subtotal	\$ 857,275
Contingency	\$ 92,725
Total	\$ 950,000
Estimated Interest Expense@ 4%	\$ 133,773
Grand Total	\$1,083,773

The tax breakdown is as follows:

\$ 353,310 State School Property Taxes
\$ 730,463 Local Property Taxes
\$1,083,773

The tax capture breakdown represents the entire project. Because all the parcels are not adjacent and contiguous, formal action can be taken only on a portion of the project plan at this time. The eligible activities within the allowable area total \$408,766, funded by \$133,258 in school tax capture and \$275,508 in local tax capture. Staff expects the community to amend its work plan to include the entire project at a future date.

The property, formerly used for commercial purposes, is blighted and is located within the boundaries of the City of Ecorse, a qualified local governmental unit. The project is the subject of a brownfield plan duly approved on November 27 2002, by the Ecorse City Council and on November 7, 2002, by the Wayne County Commission.

Recommendation

The Michigan Economic Development Corporation recommends approval in the amount of \$408,766 for the demolition and infrastructure activities described above.

Board Discussion

David Hollister gave the Executive Committee report and, on behalf of the Executive Committee, recommended approval of the tax capture.

Hearing no further board discussion, a motion was made and supported and Resolution 2003-13, approving a school tax capture for the Wayne County Brownfield Redevelopment Authority for its Salliotte Avenue redevelopment project, was adopted.

ACTION ITEM

*TRW Automotive, Inc.
24175 Research Drive
Farmington Hills, Michigan 48335*

Jim Paquet made a presentation to the board, explaining the requested amendment. In November of 2002, the MEGA authorized a tax credit to TRW Automotive, Inc. for construction of a facility in Livonia to consolidate its automotive products headquarters operations. The project was expected to create up to 165 net new jobs.

At the time the credit was awarded, TRW Automotive, Inc. was a wholly owned subsidiary of TRW, Inc., which was headquartered in Cleveland. TRW, Inc. was in the process of being acquired by Northrop Grumman Corporation. It was expected that

TRW Automotive, Inc. would become an independent company and that new hires for the project would be on the payroll of TRW Automotive, Inc. As a condition of the credit, non-manufacturing employees of TRW, Inc., Kelsey-Hayes Company, and TRW Vehicle Safety Systems, were held in the base employment level established for TRW Automotive, Inc. The acquisition of TRW, Inc. by Northrop Grumman was finalized on December 11, 2002.

Due to an internal miscommunication, jobs transferred from Cleveland and new hires related to the project were put on the Kelsey-Hayes payroll prior to January 20, 2003 when TRW Automotive Inc. executed its Agreement. Subsequently, it was also decided that Kelsey-Hayes was the most appropriate unit within TRW Automotive, Inc. to house the project. The effect of those two decisions, which were made without consideration of their impact on the MEGA credit, was to disqualify 40 project related jobs from eligibility for the credit.

TRW Automotive, Inc. has requested that the MEGA consider amendments to its tax credit that will permit it to collect the credit for all its project related jobs despite its errors.

Staff has reviewed the circumstances related to the TRW credit and believes that the company acted in good faith. Staff believes the credit can be preserved with two amendments that would be consistent with the intent of the original tax credit award. The first amendment would take advantage of the "look-back" provisions in the MEGA Act. The law provides two alternative definitions of qualified new jobs that are eligible for a credit. The standard definition allows only those jobs created after a company has signed an Agreement to be eligible for a credit. The look-back definition makes jobs created up to 119 days prior to execution of the Agreement eligible. Amending the TRW credit award to make it a "look-back" credit would prevent the company from being penalized for creating project jobs prematurely.

The second amendment is a transfer of the credit to Kelsey-Hayes Company. A transfer amendment would be consistent with past Board actions when corporate restructurings, mergers, acquisitions, or divestitures have resulted in a project being transferred to a different taxpayer.

Recommendation

Staff recommends that the TRW Automotive, Inc, credit be amended to a look-back credit, and that the credit be transferred to Kelsey-Hayes Company, EIN 13-3369789. The look-back credit amendment requires adjustment of the base employment level to the number of jobs 120 days prior to the execution of the Agreement. That adjustment will reduce the base from 2,010 to 1,989 jobs. Because Kelsey-Hayes jobs were included in the original base determination and are included in the look-back base, no further adjustment is required in connection with the transfer.

Board Discussion

David Hollister gave the report of the Executive Committee and recommends board approval of the requested amendment.

Tom Schimpf talked about the point in time that is used to determine a company's base employment level for the 120-day look-back credits.

Hearing no further discussion, a motion was made and supported and Resolution 2003-14, approving an amendment to Resolution 2002-044, along with transfer of the tax credit to Kelsey-Hayes, was adopted.

The meeting was adjourned at 3:40 p.m.

Next meeting of the MEGA board is scheduled for Tuesday, June 17, 2003.