

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 7, 2002 at 10:00 a.m.

Members Present

Beth Chappell (by phone)

Craig DeNooyer

Sarah Deson-Fried

Jackie Shinn (acting for and on behalf of Gregory Rosine, authorization attached)

Nancy Taylor (acting for and on behalf of Doug Roberts, authorization attached)

Tim Ward

Members Absent

Duane Berger

Doug Rothwell

Others Present

Karen Ammarman, MEGA, MEDC

Peter Anastor, MEGA, MEDC

Linda Dankoff, MEGA, MEDC

Jim Donaldson, MEDC

Larry Gormezano, MEDC

Carol Knobloch Johns, MEDC

Kevin Kelley, Township Supervisor, Charter Twp. of Redford

Paul Krepps, MEDC

Chris Landrigan, City of Allegan

Ben Mason, MEDC

Mark Morante, Vice President, Bus. Finance Adv., MEDC

Jon Rosenthal, Project Coordinator, Ram Development Co.

Scott Rush, Director of Taxation, Perrigo Company

Tom Schimpf, Attorney General

Cal Sharp, Senior V.P., Detroit Diesel

Vern Taylor, Brownfield, MEDC

Christof Traidl, President and CEO, Axle Alliance

Call to Order

Tim Ward called the meeting to order at 10:05 a.m.

Approval of Minutes from March 5, 2002

After a requested correction of a spelling error, It was moved, supported and carried that the minutes from the March 5, 2002 meeting be adopted.

Public Comment

There was no public comment.

ACTION ITEM

*Axle Alliance Company, LLC
13400 Outer Drive, West
Detroit, Michigan 48239*

Jim Donaldson began the presentation by explaining that Axle Alliance Company, LLC is a subsidiary of DaimlerChrysler North American Holding Corporation and was recently incorporated in Michigan to develop and manufacture axles for commercial vehicles and to provide engineering consultancy services to other axle plants. Mr. Donaldson introduced Dr. Christof Traidl, President and Chief Executive Officer of Axle Alliance Company. Dr. Traidl described the project and his intention to in-source his heavy-axle business and produce all Freightliner axles in Detroit, Michigan.

The company was created to begin a new commercial vehicle axle production line for DaimlerChrysler North America. Plans are to lease roughly 72,000 square feet of manufacturing and office space from the Detroit Diesel facility in Redford, Michigan. Investment of roughly \$900,000 in the building would occur, as well as \$500,000 in annual lease payments. Other investments include \$17 million in machinery and equipment and \$12 million in research and development expenditures.

Craig DeNooyer commented about Dr. Traidl's statement describing Daimler-Chrysler's intention to in-source the axle business when there has been an emphasis on out-sourcing in the past. Mr. DeNooyer asked whether this is a coming trend.

Dr. Traidl explained that it was no secret that Daimler-Chrysler wanted to use European axle technology. He would be gradually homogenizing the production technology for the axles so that tooling for production will eventually be consistent between European and American production facilities. He also stated that the company was committed to the Detroit region.

Up to 215 new jobs would be created over a five-year period at an average weekly wage of \$649 and a benefit package worth up to 20 percent of wages. Building preparation will take place from July through December 2002 and production is expected to begin in July 2003.

It is estimated that this facility will generate a total of 552 jobs in the state by the year 2018. Total state government revenues through the year 2018 would be increased by \$27.6 million due to the presence of this facility.

As part of its decision-making effort, the company conducted a cost comparison between Redford, Michigan and Charleston, South Carolina. Because this is a new

endeavor for DaimlerChrysler, the parent company is very cognizant of costs associated with getting this facility up and going. An existing building is available in Charleston (the former Freightliner axle manufacturing facility), which would require no renovations and would cost \$70,000 per year less to lease. In addition, wages in South Carolina would average 12 percent lower than in Michigan. These cost differences, as well as the fact that South Carolina has offered the company a significant incentive package, require that Michigan provide an aggressive MEGA incentive to attract this project.

Due to the type and level of investments being proposed, the company may be eligible for an Investment Tax Credit of up to \$110,000. The State of Michigan would provide a State Education Tax abatement of six mills to match the length of time of the local property tax abatement. The value of this abatement is estimated at \$235,000.

Redford Township will provide a 50 percent abatement of the company's new personal property for six years and qualified renovations to the facility for 12 years. The estimated value of both of these local abatements is \$996,000.

Mr. Donaldson ended his presentation by stating that the MEDC was excited about this expansion. He also said that the union must ratify the employee contract which, among other things, sets up a wall separating Detroit Diesel employees from Axle Alliance employees.

Recommendation

The Michigan Economic Development Corporation recommends an employment tax credit of 100 percent for 15 years for up to 215 net new employees.

Board Discussion

Elizabeth Chappell gave the report of the Executive Committee. The Executive Committee is pleased to recommend awarding the requested MEGA tax credit.

Tom Schimpf asked Kevin Kelley, Redford Township Supervisor, to discuss the township's willingness to support this project with tax abatements. Mr. Kelley reported that a vote was taken and Redford Township had approved the 50 percent, twelve-year abatement a week ago.

Hearing no other discussion, a motion was made and supported, and Resolution 2002-09 awarding a MEGA Tax Credit to Axle Alliance Company, LLC was adopted.

ACTION ITEM

*Perrigo Research & Development Company
515 Eastern Avenue
Allegan, Michigan 49010*

Jim Donaldson began the presentation by introducing Scott Rush, Director of Taxation for the Perrigo Company. Mr. Rush described the new research and development company and discussed the project. Perrigo Research & Development Company is a newly established, wholly-owned subsidiary of Perrigo Company and will be responsible for all domestic research and development conducted by Perrigo Company and its subsidiaries. Perrigo Company was established in 1887 and is the nation's largest manufacturer of store brand over-the-counter pharmaceutical products. The company also manufactures store brand nutritional products. Perrigo Company's customers include major national and regional drug, supermarket and mass merchandise chains such as Albertson's, CVS, Kmart, Kroger, Safeway, Target, Walgreens and Wal-Mart. Perrigo Company currently has over 2,500 employees in Michigan. Perrigo Research and Development Company currently has no employees in Michigan.

The company would expand its research and development activities by constructing an Analytical Research and Development Laboratory. The proposed 6,365 square foot expansion will be at its existing campus in Allegan or in Greenville, South Carolina, where the company has existing operations. The company would add five new jobs in the first year and 25 jobs over five years paying an average weekly wage of \$865. The company would also transfer approximately 90 current employees from Perrigo Company to Perrigo Research and Development Company, although many of the new employees would not move to the new facility. Capital investment for the project would total \$1.6 million, including \$1.2 million for the building and \$400,000 for new furniture, fixtures and equipment. Depending on the success of the project, a second phase may include an additional \$1.5 million investment.

It is estimated that this facility will generate a total of 31 jobs in the state by the year 2012. Total state government revenues through the year 2012 would be increased by \$1.2 million due to the presence of this facility.

Perrigo has the option of locating this expansion at its existing campus in the City of Allegan or next to an existing facility in Greenville, South Carolina. The Greenville location is attractive to the company due to lower wage and benefit costs. This differential could be as much as \$150,000 per year once the project is fully staffed. In addition, the company will have minimal corporate income tax obligations in South Carolina due to the research and development nature of the expansion.

The State of Michigan will offer an abatement of 50 percent of the six-mill State Education Tax for a length of time to match the local property tax abatement. The value of this abatement is estimated at \$26,800.

The City of Allegan has proposed a 50 percent abatement of the company's new real and personal property for 12 years. The estimated value of this local abatement is \$241,900.

Recommendation

The Michigan Economic Development Corporation recommends a high-technology employment credit of 100 percent for ten years for up to 25 net new employees.

Board Discussion

Elizabeth Chappell gave the Executive Committee report. The Executive Committee reviewed the project and recommends approval of the MEGA tax credits.

Tom Schimpf asked the representative from the City of Allegan whether they intended to provide the expected tax abatement. Chris Landrigan informed the Board that a vote on this issue was scheduled for May 27th and that he anticipated its passage.

Hearing no further discussion it was moved and supported and Resolution 2002-10 approving MEGA Tax Credits for Perrigo Research & Development Company was adopted.

ACTION ITEM

*Woodward Millennium L.P.
3011 West Grand Boulevard, Ste. 2405
Detroit, Michigan 48202*

Vern Taylor presented the project for the Board's further consideration. The proposed mixed-use project will result in a commercial/residential building along Woodward which will include 20,145 sq. ft. of retail space and 45 loft condominiums, a 135-unit garden-style apartment complex along Mack Avenue, and a privately owned and operated parking garage at the rear of the site. The site has been designated a blighted area by the City since the 1960s. The new building, to be constructed directly on the corner of Woodward and Mack, will provide a dramatic impact on a major intersection that has been unoccupied for many years. The new six-story parking facility would support not only the retail and housing units described above, but also aid nearby Wayne State University, Detroit Public Schools, theatre activities, and 135 additional rental housing units to be built in the third phase of this project (third phase is not included in the SBT Credit request). A \$1.1 million work plan is under consideration by the Michigan Department of Environmental Quality. The work plan was approved for tax increment financing by the MEGA Board at the December 18, 2001 meeting.

Mr. Taylor introduced Jon Rosenthal, the project coordinator for the Woodward Millennium Project. Mr. Rosenthal expressed that construction plans have been completed for the parking garage and that he is working with MDEQ for an assessment of soil conditions and approval to remove contaminants. He intends to begin construction within the next 30 days. Mr. Rosenthal continues to pursue retail tenants and reports renewed interest from potential retail tenants.

The eligible investment included in the SBT Credit request is expected to cost \$24,670,000. This includes investments of up to \$2,450,000 in personal property by retail tenants that are yet to be identified. A cost breakdown follows:

| | |
|-------------------|------------------|
| Site Improvements | \$ 590,000 |
| New Construction | 21,630,000 |
| Fixtures | <u>2,450,000</u> |
| Project Total | \$ 24,670,000 |

Sarah Deson-Fried asked whether, with the list of intended retail tenants still evolving, financing is in place for this project. Mr. Rosenthal indicated that financing is in place.

Jackie Shinn questioned wording on the application form that specifies an estimated total of all credits for the project must not exceed \$1 million yet this project is for a credit for up to \$2,467,000. Vern Taylor explained that the Michigan Department of Treasury application form had been used and that the Department of Treasury can only approve credits of up to \$1 million. The MEGA Board can approve credits in excess of \$1 million which is the case here. The misunderstanding was caused by utilizing the Department of Treasury application rather than the MEDC application.

Recommendation

The Michigan Economic Development Corporation recommends approval of a MEGA Brownfield Redevelopment Credit of 10% of the eligible investment for the Woodward Millennium project, not to exceed a credit of \$2,467,000

Board Discussion

Elizabeth Chappell gave the Executive Committee report. After she commended staff for their work on the business case, she indicated the Executive Committee's recommendation for approval of the redevelopment tax credit.

Hearing no further discussion it was moved and supported and Resolution 2002-11 approving a MEGA Brownfield Redevelopment Credit for the Woodward Millennium Project was adopted.

ACTION ITEM

*Lombardo Heritage, LLC
6303 26 Mile Road, Ste. 200
Washington, Michigan 48094*

Karen Ammarman explained the reason for requested Board action with regard to Lombardo Heritage, LLC. MEGA conditionally approved the Lombardo Heritage project at its December 18, 2001 meeting. The Resolution states: "This resolution shall lapse and have no further effect and the Lombardo Heritage application shall be denied, if

Lombardo Heritage fails to provide documentation, satisfactory to the MEGA staff, that it is a qualified taxpayer as provided in the Act, no later than February 1, 2002.”

Although, Lombardo Heritage, L.L.C. became a qualified taxpayer consistent with the requirements of the Act, it failed to document that fact to the MEGA staff, as provided in the resolution. The company was sent written notice that the project was denied effective February 1, 2002 because MEGA staff had not received documentation of the company’s successful acquisition of the property within the timeframe stated in the resolution.

In April, 2002, MEGA staff received documentation verifying that Lombardo Heritage became a qualified taxpayer in December, 2001. Because Lombardo Heritage complied with the spirit of the Board’s resolution by becoming a “qualified taxpayer” in a timely manner, and because the project has not changed since it was conditionally approved in December, 2001, staff is recommending that the original resolution be reinstated.

Pursuant to the terms of the original resolution, a Pre-Approval Letter will be issued dated April 6, 2002, the date the company provided satisfactory documentation of its status as a ‘qualified taxpayer’. Qualified investments made after that date will be eligible for the credit.

Reinstatement of the Board’s original approval of the project will avoid the need to count the project among the fifteen projects that may be approved in 2002.

Recommendation

The Michigan Economic Development Corporation recommends reinstatement of the Board’s original approval of the project.

Board Discussion

Craig DeNooyer asked why the company delayed providing the required verification. Vern Taylor explained that the company closed the deal in December but that the paperwork needed to provide the proof was slow to follow. Tom Schimpf explained that it was a requirement of the Attorney General’s office that the company have the deed in hand in order to prove that it was the qualified taxpayer. The filing of the necessary paperwork to produce the deed took longer than anticipated.

Hearing no further discussion it was moved and supported and Resolution 2002-12 was adopted, authorizing a reinstatement of Resolution 2001-062 as adopted.

ACTION ITEM

*Forest Health Services LLC
135 South Prospect
Ypsilanti, Michigan 48198*

Karen Ammarman explained that, in July of 2000, the MEGA authorized an Employment Credit of 75 percent for five years to Forest Health Services Corporation for expansion of its corporate headquarters in Ypsilanti. The credit was awarded for up to 488 new jobs. The company acquired and renovated the Oakwood Beyer Hospital in Ypsilanti and by year-end 2001, had created 104 new jobs.

In January of this year the company discovered that its original application for the credit had erroneously reported the bi-weekly wage rather than the weekly wage for the largest group of jobs it expected to create. As a result, the Average Weekly Wage established in the resolution awarding the credit was \$1,109. If the correct weekly wage had been stated in the application, the Average Weekly Wage would have computed to \$846.

Staff is satisfied with the company's explanation of the error and is recommending that the Average Weekly Wage be revised to \$846.

On October 25, 2001, Forest Health Services Corporation was merged into Forest Health Services LLC. While the merger did not change the nature of the project for which the tax credit was awarded, it did create a new taxpayer to operate the project, requiring a transfer of the credit to the new taxpayer.

Recommendation

Staff is recommending that the MEGA credit be transferred to Forest Health Services LLC, effective October 25, 2001.

Board Discussion

Sarah Deson-Fried asked whether the Board's analysis would have been different if the correct weekly wage had been used initially. Mark Morante said no, that the effect on other calculations was slight and would not have made a difference to the outcome.

Hearing no further discussion it was moved and supported and Resolution 2002-13, amending the tax credit awarded to Forest Health Services Corporation to require an average weekly wage of at least \$846 was adopted. This resolution also transferred the Company's tax credit to Forest Health Services LLC.

ACTION ITEM

*Chrysler Financial Company, LLC
27777 Franklin Road
Southfield, Michigan 48034*

Karen Ammarman presented this amendment. In December of 1999, the MEGA authorized an Employment Credit of 75 percent for nineteen years to Chrysler Financial Company, LLC for consolidation of the headquarters operations of Chrysler Financial with Mercedes-Benz Credit Corporation. In September of 2001, the credit was amended by Resolution 2001-044 to allow the project to be located in an existing building in Farmington Hills rather than a newly constructed building in Auburn Hills.

As part of the consolidation Chrysler Financial and Mercedes-Benz Credit were merged into a new entity, DaimlerChrysler Services North America, LLC on November 30, 2001. Chrysler Financial has requested that the MEGA credit be transferred to the new LLC.

Recommendation

Staff is recommending that the Chrysler Financial Company LLC credit be transferred to DaimlerChrysler Services North America, LLC, effective November 30, 2001. No adjustment of the jobs base is required because neither Mercedes-Benz Credit nor DaimlerChrysler Services had any Michigan employees at the time of the merger.

Board Discussion

Hearing neither questions nor discussion from the Board, motion was made and supported and Resolution 2002-14 authorizing a transfer of MEGA Employment Tax Credit from Chrysler Financial Company, LLC to DaimlerChrysler Services North America, LLC was adopted.

The meeting was adjourned at 10:50 a.m.