

Adopted Minutes

A meeting of the Michigan Economic Growth Authority (MEGA) was held at the Victor Office Center, 201 N. Washington Square, Lansing, Michigan on June 11, 1996 at 10:00 a.m.

Members Present:

Madhu Anderson (acting for and on behalf of Doug Roberts, authorization attached)
Beth Chappell
William LaMothe
John McCormack
David Porteous
Douglas Stites (acting for and on behalf of Doug Rothwell, authorization attached)

Members Absent:

Mark Murray
Robert Welke

Others Present:

Al Aceves, MEGA Specialist, Michigan Jobs Commission
Dawn Baetsen, Account Manager, Michigan Jobs Commission
Todd Brian, Port Huron EDC
Diana Burns, Michigan Jobs Commission
Jim Donaldson, Outstate Regional Director, Michigan Jobs Commission
Frank Ferro, International Division, Michigan Jobs Commission
Mike Pohnl, MEGA Specialist, Michigan Jobs Commission
Ed Reed, Account Manager, Michigan Jobs Commission
Laura Ringo, Account Manager, Michigan Jobs Commission
Faye Ross, Hi-Lex Controls, Inc.
Larry Schrauben, Acting Secretary to the MEGA Board
Gerald Sexton, Hi-Lex Controls, Inc.
Lisa Babcock Thomas, Senate Democratic Policy Staff
David Thompson, Petri, Inc.
K. Tokuhira, President, Hi-Lex Controls, Inc
Gary Trudgeon, Dow Chemical Company
Reb Turner, Hi-Lex Controls, Inc.
John Wernet, Attorney General's Office

Call to Order

The meeting was called to order by Mr. Porteous, Acting Chairperson, at 10:00 a.m.

Adoption of the Minutes from the March 12, 1996 Meeting

It was moved, supported, and carried that the Minutes from the March 12, 1996 meeting be adopted.

Public Comment

None

Action Items

*Dow Chemical Company
2030 Dow Center
Midland, Michigan 48674*

Mr. Stites introduced Mr. Jim Donaldson of the Michigan Jobs Commission and stated that Mr. Donaldson would be presenting brief summaries of the four proposed projects before the Board.

Mr. Donaldson introduced Mr. Gary Trudgeon representing Dow Chemical and MJC staff who worked on the project.

History of the Company

Dow Chemical Company is a Michigan company based in Midland County. Dow Chemical's North American Fabricated Product Department manufactures and markets an extensive line of plastic film and foam products, including Styrofoam brand extruded polystyrene insulation. Currently research and development personnel are located in a facility in Granville, Ohio and the market and business personnel are located at Corporate Headquarters in Midland, Michigan.

Project Description

Due to expanding research and development needs, Dow Chemical Company would like to consolidate its fabricated products research and development facility in Granville, Ohio or Midland, Michigan. If the project goes to Ohio, Michigan will not only lose 110 new jobs, but over 60 existing jobs may leave the State.

This project will have an investment of approximately \$12 million in a new 110,000 sq. ft. Business and Research Center and a subsequent \$10 million in relocating equipment and personnel. This expansion will create 110 new jobs with an average weekly wage of \$1,320.

Cost Analysis

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Granville, Ohio and Midland, Michigan. Based on figures obtained from the company, the cost

disadvantage for Dow Chemical Company to establish their facility in Midland, rather than Granville is approximately \$25 million over the term of the incentive. The cost differential is primarily attributable to costs of constructing a new facility and relocation of equipment and personnel to Michigan.

Benefit to State

According to the economic analysis done by the University of Michigan, staff estimates this facility will generate a total of 261 new jobs in the State by year 2016. Total State government revenues through year 2016, net of MEGA costs, net of property tax abatements costs, and adjusted for inflation would be increased by \$14,611,000 (1996 dollars) due to the presence of the Dow Chemical Company facility.

Staff Recommendation

Staff recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 110 new employees and a business activity credit of 100 percent for a period of 20 years.

Board Members Discussion

Mr. Porteous stated that but for MEGA, Dow Chemical Company, would not expand in Midland, Michigan due to the high costs associated with constructing a new facility, and the costs of relocating personnel. The existing Ohio facility has sufficient room to house the Midland personnel who would move as a result of the consolidation. Relocation costs of Michigan personnel would also be considerably lower because less than half as many would have to make the move to Ohio.

Mr. McCormack asked if there was a limit as to how many MEGA credits a company could receive? Mr. Stites responded that the statute does not impose a limitation on the number of credits a company can receive and that credits are granted on project-by-project basis. For example, Hess Industries has received one tax credit based on the plant expansions of two of the company's subsidiaries.

Mr. LaMothe stated his support and commented that it is very important for a company like Dow Chemical Company to remain in Michigan.

It was moved, supported, and carried that Resolution 1996-008 awarding tax credits to Dow Chemical Company be adopted.

ADOPTED:

AYES: Doug Stites (acting for and on behalf of Doug Rothwell, authorization attached), Madhu Anderson (acting for and on behalf of Doug Roberts, authorization attached), Beth Chappell, John McCormack, David Porteous, William LaMothe

NAYS: None

*Hi-Lex Controls, Incorporated
152 Simpson Drive
Litchfield, Michigan 49252*

Mr. Donaldson introduced representatives from Hi-Lex Controls, Incorporated and MJC staff who worked on the project.

History of Company

Hi-Lex Controls was founded in 1989 as a separate facility and subsidiary of Hi-Lex Corporation which has been in Battle Creek, Michigan since 1975. After a series of transactions, the current legal parent T.S.K. of America was established in November, 1992. T.S.K. of America, in turn, is owned 100 percent by Nippon Cable System, Inc. of Takaruzuka, Japan. Hi-Lex controls is located in Litchfield, Michigan and produces window regulators for the automotive industry and currently employs approximately 732 people, 223 of which are located in Litchfield.

Project Description

Hi-Lex will expand its existing 105,000 sq. ft. facility in Litchfield an additional 58,500 sq. ft. or buy an available 86,000 sq. ft. industrial building in Fort Wayne, Indiana.

This project will have an investment of approximately \$9.6 million, in addition to creating 197 new jobs over a three year period with an average weekly wage of approximately \$520.

Cost Analysis

As part of the company's decision process, it has undertaken a comprehensive cost analysis of Fort Wayne, Indiana and Litchfield, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Hi-Lex Controls to establish its manufacturing facility in Litchfield, Michigan rather than Fort Wayne, Indiana ranges from approximately \$181,000 to \$415,000 over the term of the incentive. The cost differential is primarily attributable to taxes, land improvements, and the cost of financing the project. The interest cost of financing this project represents a majority of the differential because the company has maximized its tax-exempt industrial development revenue bond allocation of \$10 million in Litchfield, Michigan and not in Fort Wayne, Indiana.

Benefit to State

According to the economic analysis done by the University of Michigan, staff estimates this facility will generate a total of 561 new jobs in the State by year 2007. Total state government revenues through the year 2007, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation costs, would be increased by \$14,332,000 (1996 dollars) due to the presence of the Hi-Lex Controls, Incorporated facility.

Staff Recommendation

Staff recommends a MEGA employment credit of 50 percent for a period of 10 years for up to 197 net new employees.

Board Members Discussion

Mr. Porteous stated that but for MEGA, Hi-Lex Controls, Incorporated would not locate in Litchfield. The company has identified an existing building in Fort Wayne, Indiana as opposed to constructing an addition to its plant in Litchfield, Michigan. The Litchfield property will require land improvements that the Fort Wayne property does not. The tax structure in Indiana is slightly more favorable than in Michigan because Indiana's corporate tax is slightly less than Michigan's Single Business Tax. Hi-Lex Controls, Incorporated is eligible for tax-exempt industrial development revenue bonds in Indiana. They do not qualify for similar financing at the Litchfield site. This represents a difference in the company's cost of capital of approximately 3 percent more in Michigan, versus Indiana.

Mr. LaMothe stated that Hi-Lex was the first Japanese company to locate in the Battle Creek area and he personally is delighted they are staying.

Mr. McCormack indicated concern over the cost spread. Mr. Donaldson indicated the wide differential was based on infrastructure (taxes, land improvements, and the cost of financing).

It was moved, supported, and carried that Resolution 1996-009 awarding tax credits to Hi-Lex Controls, Incorporated be adopted.

ADOPTED:

AYES: Doug Stites (acting for and on behalf of Doug Rothwell, authorization attached),
Madhu Anderson (acting for and on behalf of Doug Roberts, authorization attached),
Beth Chappell, John McCormack, David Porteous, William LaMothe

NAYS: None

Petri, Inc.
2223 Dove Street
Port Huron, Michigan 48060

Mr. Donaldson introduced representatives from Petri, Inc. and MJC staff who worked on the project.

History of Company

Petri, Inc. is a wholly-owned subsidiary of Petri A.G., a worldwide supplier of automotive safety restraint systems based in Germany. The company's main product line has been steering wheels for the automotive market. Petri A.G. has manufacturing operations in Germany, Spain, the Czech Republic, Argentina, and Port Huron, Michigan. The Port Huron facility is the only Petri plant in North America.

Because two major customers of Petri, Mercedes Benz and BMW are locating new assembly facilities in North America, the company needs to build a new facility or expand its current operations in Port Huron, Michigan.

Project Description

Petri, Inc. will be located in either Sumpter County, Alabama, or Port Huron, Michigan. The plant will produce steering wheel assemblies, including air bag units, for North America auto and heavy truck assembly plants. Total investment for this project, in either location, will be approximately \$10.7 million with \$1.6 million for a new building and the remaining \$9.1 million for new production equipment, in addition to creating 396 jobs at full production with an average weekly wage of \$520.

Cost Analysis

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Sumpter County, Alabama and Port Huron, Michigan. Based on figures obtained from the company, the cost disadvantage for Petri, Inc. to establish their manufacturing facility in Port Huron rather than Sumpter County, Alabama ranges from \$1.3 million to \$3.4 million over the term of the incentive. The cost differential is primarily attributable to payroll and benefit package differentials and state imposed business costs, including corporate taxes, property taxes and local income taxes.

Benefit to State

According to the economic analysis done by the University of Michigan, staff estimates this facility will generate a total of 1,252 new jobs in the State by the year 2006. Total state government revenues through the year 2006, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation costs, would be increased by \$25,439,000 (1996 dollars) due to the presence of the Petri, Inc. facility.

Staff Recommendation

Staff recommends a MEGA employment credit of 100 percent for a period of 10 years for up to 396 net new employees and a business activity credit of 50 percent for a period of 10 years.

Board Members Discussion

Mr. Porteous stated that but for MEGA, Michigan would not be able to compete with the tax credit programs and lower wages offered by the State of Alabama. Wages in the automotive sector in Alabama are 20 to 30 percent lower. Also, Alabama is offering up to a 100 percent credit of their corporate taxes for 20 years and a 90 percent abatement of property taxes for 10 years. These cost differences would require that the company locate in Alabama to maximize its profitability if the MEGA credits were not available.

Mr. Porteous emphasized that authorizing the MEGA credits was essential for Michigan to keep this major supplier in Michigan.

Mr. LaMothe stated that even with this project having the largest disparity of any project thus far, we still need to do more to keep companies in Michigan. Mr. Stites indicated that the MJC is working on this. Mr. Stites also indicated that you need to take into consideration that Michigan has quality of work, good roads, good schools and good wages, when comparing Alabama to Michigan.

Mr. LaMothe asked if the Board has information as to what benefits are brought into the community by offering the MEGA credits for companies to stay in Michigan. Mr. Stites indicated this has not been quantified, however, the MJC may be able to provide such information.

It was moved, supported and carried that Resolution 1996-010 awarding tax credits to Petri, Inc. be adopted.

ADOPTED:

AYES: Doug Stites (acting for and on behalf of Doug Rothwell, authorization attached),
Madhu Anderson (acting for and on behalf of Doug Roberts, authorization attached),
Beth Chappell, John McCormack, David Porteous, William LaMothe

NAYS: None

IMCO Recycling, Inc. Name Change

Mr. Schrauben presented.

IMCO Recycling, Inc. was awarded a MEGA credit on March 1, 1996. IMCO Recycling, Inc. was granted the credit prior to the incorporation of a new wholly-owned subsidiary, IMCO Recycling

of Michigan, L.L.C. As a result of the creation of this new company, IMCO Recycling, Inc. has requested that the credit be transferred to the new Michigan subsidiary.

It was moved, supported and carried that Resolution 1996-011 awarding transfer of tax credits to IMCO Recycling of Michigan, L.L.C. be adopted.

ADOPTED:

AYES: Doug Stites (acting for and on behalf of Doug Rothwell, authorization attached), Madhu Anderson (acting for and on behalf of Doug Roberts, authorization attached), Beth Chappell, John McCormack, David Porteous, William LaMothe

NAYS: None

Mr. McCormack asked if it would be possible for MJC staff to provide a map indicating the cities and number of jobs created by MEGA. Mr. Stites indicated staff could provide this.

Mr. LaMothe asked if the MEGA sunset had been extended? Mr. Stites stated there have been preliminary discussions with Members of the Legislature and that the issue will be on the Legislative agenda later this fall.

Lacks Industries, Incorporated
5460 Cascade Road, S.E.
Grand Rapids, Michigan 49546

History of Company

Lacks Enterprises acts as a holding company for two wholly-owned subsidiaries, Lacks Industries, Incorporated and Plastic-Plate, Incorporated. Lacks Industries, Incorporated is engaged in the plastic molding and plating business for the automotive industry. Primary products at the Cascade plant are plating and finishing of exterior automotive parts such as wheel covers and grills. Lacks Industries, Incorporated has more than 1,200 employees in Michigan.

Project Description

Lacks Industries, Incorporated will select either Fountain Inn, South Carolina or Kentwood, Michigan for its expansion. This is a three phase project with the company expanding its assembly and distribution center, building a new electroplating facility, and building a molding facility between July 1996 and mid-1998. Projected total investment is approximately \$37.8 million, with \$20.1 million in land and buildings, and \$17.7 million in new equipment. This project will create up to 200 new jobs by the end of 1998 with an average weekly wage of approximately \$447.

Because of recent construction of a new facility in South Carolina and the favorable business climate there, a decision to locate this new project in South Carolina would likely lead to all future expansion taking place outside of Michigan.

Cost Analysis

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Fountain Inn, South Carolina, and Kentwood, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Lacks Industries, Incorporated to establish its manufacturing facility in Kentwood, Michigan, rather than Fountain Inn, South Carolina, is approximately \$350,000 to \$700,000 over the term of the incentive. The cost differential is primarily attributable to the single business, personal, and real property taxes. Cost of electricity is also lower in South Carolina. Lacks Industries, Incorporated already has a facility located in Fountain Inn and has operating experience in South Carolina.

Benefit to State

According to the economic analysis done by the University of Michigan, staff estimates this facility will generate a total of 545 new jobs in the State by the year 2016. Total state government revenues through the year 2016, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation would be increased by \$24,653,000 (1996 dollars) due to the presence of the Lacks Industries facility.

Staff Recommendation

Staff recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 200 new employees and a business activity credit of 50 percent for a period of 10 years.

Board Members Discussion

Ms. Anderson asked what tax abatement was offered? Mr. Donaldson stated the property tax abatement was for twelve years and totaled \$2.0 million.

Mr. Stites stated that because the company already had a "toe hold" in South Carolina the MJC staff has had ongoing negotiations with Lacks Industries, Incorporated for the last six months to negotiate an incentives package for the company to stay in Michigan.

It was moved, supported and carried that Resolution 1996-012 awarding tax credits to Lacks Industries, Incorporated be adopted.

ADOPTED:

AYES: Doug Stites (acting for and on behalf of Doug Rothwell, authorization attached),
Madhu Anderson (acting for and on behalf of Doug Roberts, authorization attached),
Beth Chappell, John McCormack, David Porteous, William LaMothe

NAYS: None

Executive Committee Replacement

Mr. Stites reported that Mr. Roberts would like to have Mr. Murray replace him as a member of the Executive Committee.

It was moved, supported and carried that Mr. Murray replace Mr. Roberts as a member of the Executive Committee and that Mr. Roberts will serve as Mr. Murray's alternate to the Executive Committee.

ADOPTED:

AYES: Doug Stites (acting for and on behalf of Doug Rothwell, authorization attached),
Madhu Anderson (acting for and on behalf of Doug Roberts, authorization attached),
Beth Chappell, John McCormack, David Porteous, William LaMothe

NAYS: None

The meeting was adjourned at 11:08 a.m.