

ADOPTED MINUTES

A rescheduled 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 June 19, 1998 at 9:00 a.m.

Members Present:

Doug Rothwell
David Porteous
Phil Kazmierski (acting for and on behalf of James R. DeSana)
Mary Lannoye (acting for and on behalf of Janet E. Phipps)
Mark Hilpert (acting for and on behalf of Douglas Roberts)

Members Absent:

Beth Chappell
John McCormack

Others Present:

Karen Ammarman, MEGA Office, Michigan Jobs Commission (MJC)
David Burrus, Director Operations Analysis, AAR Corporation
Jim Donaldson, Director, Michigan Business Development (MBD), MJC
Cristine Dreese, Secretary, MJC
Kyle J. Jen, Research Assistant, House Fiscal Agency
Bryan McClure, Chief Development Officer, MJC
Mike Pohnl, Acting Deputy Director, MBD, MJC
Gary E. Schwach, President/General Manager, AAR Manufacturing Group, Inc.
Peter D. Stalker, City Manager, City of Cadillac

Call To Order

The meeting was called to order by Chairperson Rothwell at 9:05 a.m.

Adoption of the Minutes from the May 28, 1998 Meeting

It was moved, supported, and carried that the minutes from the May 28, 1998 meeting be adopted.

Public Comment

There were no comments from the public.

Action Items

***AAR Manufacturing Group, Inc.
One AAR Place
1100 North Wood Dale Road
Wood Dale, Illinois 60191***

Chairperson Rothwell introduced Jim Donaldson and Mike Pohnl from the MJC and asked Mr. Donaldson to present the project. Before the presentation, Mr. Pohnl introduced Peter Stalker from the City of Cadillac and Gary Schwach and David Burrus representing AAR Manufacturing Group, Inc. Mr. Donaldson then summarized the key points from the briefing memo on the project.

Project Description

AAR is a publicly traded company whose primary activities are the trade of aircraft and parts, airframe parts and aircraft parts distribution, and overhaul of aircraft. AAR employs more than 2,100 employees in 33 facilities in 10 countries. The company has increased revenues by approximately \$50 million annually for the past three years and expects this growth to continue into the future.

AAR wants to expand its manufacturing capacity in the United States. The company is considering a site in Oklahoma or in Cadillac, Michigan. This new project will create 300 new jobs and will have a capital investment of approximately \$12.3 million. Investment includes \$8.1 million for new construction and renovation of an existing facility and \$4.2 million for machinery and equipment.

If the project takes place in Cadillac, it will involve the expansion of an existing building in the city. It will include office and manufacturing space. Wage rates for these new jobs will average \$11.97/hour or \$479/week. By securing this expansion in Cadillac, the company will also be committed to retaining 363 jobs in Michigan. If this new facility is placed in Oklahoma, it is the company's stated intent to move the entire operation from Cadillac.

According to the economic analysis done by the University of Michigan, this facility will generate a total of 447 jobs in the state by the year 2018. Total state government revenues through the year 2018, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$24,156,000 (1998 dollars) due to the presence of the AAR facility.

Based on figures obtained from the company, the annual cost disadvantage for AAR to expand its manufacturing operations in Cadillac, rather than Oklahoma, ranges from \$470,000 to \$1.6 million over the term of the incentive. The cost differential is primarily attributable to utility and tax costs as well as an inducement package offered by Oklahoma. Wages are equivalent in Oklahoma and Michigan for these types of jobs.

The Michigan Jobs Commission will provide AAR with a 100 percent abatement of the six-mill State Education Tax for a period of time to match the local property tax abatement. Economic Development Job Training funds will also be offered to the company at \$1,000 per job for up to 300 net new employees for a total of up to \$300,000. In addition, the city of Cadillac will be applying for an infrastructure grant from the Michigan Renaissance Fund worth up to \$2 million to provide needed utilities and site development. Local assistance in the form of a 50 percent property tax abatement will be offered to AAR.

The company feels that it can locate a state-of-the-art facility in Oklahoma at a cost that would not exceed the cost of purchase and rehabilitation of an additional facility in Cadillac. They also feel that they would have lower utility and business costs in Oklahoma.

Staff Recommendation

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 300 net new jobs.

Board Members' Discussion

Vice Chairperson Porteous gave the report of the Executive Committee indicating that it was recommending the AAR Manufacturing Group, Inc. project to the full Board. Mr. Porteous remarked that he was from Reed City and, therefore, had a good sense of Cadillac's economic situation. He stated that although tourism is a big industry in the area, Cadillac has also historically had a strong industrial base. In recent years, Cadillac has been facing various challenges to maintaining its industrial base including environmental problems, shifting of jobs, and the loss of some businesses. AAR has been in Cadillac a long time and its contributions to the city are important, however, the work done by AAR could be done someplace other than Cadillac if the company chose to move its operations. Mr. Porteous stated that the Executive Committee was very comfortable with the recommendation of the MJC staff to award the MEGA credit to AAR Manufacturing Group, Inc.

Chairperson Rothwell asked for discussion from the Board. Mr. Kazmierski asked whether AAR uses rail to transport its products and Mr. Schwach answered that it does not.

It was moved, supported, and carried that Resolution 1998-010 awarding tax credits to AAR Manufacturing Group, Inc. be adopted.

Mr. Schwach thanked the MJC for the opportunity to come before the Board and for the award of the MEGA tax credit.

Mr. Stalker mentioned that AAR's presence in Cadillac is the "bread & butter" for the community and that the City Council backs AAR fully in its endeavor. He also thanked the MJC for its hard work with the City and for the MEGA incentive package.

The meeting was adjourned by Chairperson Rothwell at 9:20 a.m.