APPROVED MINUTES

A meeting of the Michigan Economic Growth Authority (MEGA) was held at the Michigan Economic Development Corporation, Victor Center, 4th Floor, 201 N. Washington, Lansing, Michigan on July 12, 2000 at 9:00 a.m.

Members Present:
Madhu Anderson (acting for and on behalf of Mark Murray, authorization attached)
Craig DeNooyer
Sarah Deson-Fried
Nancy Duncan (acting for and on behalf of Mary Lannoye, authorization attached)
Doug Rothwell
Tim Ward

Members Absent:
Beth Chappell
James DeSana

Others Present:
Peter Anastor, MEGA, MEDC
Dawn Baetsen, Business Development, MEDC
Kathy Blake, Senior Vice President, Business Development, MEDC
Barry Broom, Southwest Michigan First
Linda Dankoff, MEGA, MEDC
Robert Dobie, AGC America, Inc.
Jim Donaldson, Vice President, Business Development, MEDC
David Jeup, Vice President, Global Business Development, MEDC
Chris Knapp, Kalamazoo Gazette
Jennifer Kopp, Communications, MEDC
Susan Lackey, Washtenaw Development Council
Larry Lenz, Forest Health Services Corporation
Tom Livernois, AGC America, Inc.
Kathleen McMahon, Communications, MEDC
Ron Moffett, Business Development, MEDC
Jim Paquet, Secretary to the MEGA Board, MEDC
Paul Paulson, Lakeside Machine, Inc.
Mike Pohnl, Business Development, MEDC
Ellen Ross, MEGA, MEDC
Tom Schimpf, Attorney General
Ron Wagner, Nanovation Technologies of Michigan, Inc.
Dean Wenger, Target Corporation
Carolyn Wiley

Call to Order

Chairperson Rothwell called the meeting to order at 9:00 a.m.

Adoption of Minutes from the June 13, 2000 Meeting

It was moved, supported and carried that the minutes from the June 13, 2000 meeting be adopted.

Public Comment

There were no comments from the public.

Neway Anchorlok International, Inc. – Amending Resolution

Jim Paquet presented the Amendment to the Board.

In September of 1997, the MEGA authorized an Employment Credit of 90 percent for twenty years to Neway Anchorlok, Inc. for expansion of an existing manufacturing facility to provide suspension components to the trucking industry. The project has resulted in the creation of 121 new jobs through the end of 1999.

In July of 1999, the purchase of Neway Anchorlok was completed by The Holland Group, Inc. Neway is now operated as a wholly owned subsidiary of Holland under the name Holland Neway International, Inc. Except for the new ownership and name change the company continues to operate as it did prior to the acquisition.

Holland has requested that the MEGA credit be transferred to the new legal entity.

Recommendation

Staff recommends that the MEGA agree to the request.

Chairperson Rothwell asked if there were any questions from the Board. There being no further questions, it was moved, supported and carried that Resolution 2000-019 transferring credits from Neway Anchorlok International, Inc. to Holland Neway International, Inc. be adopted.

Smiths Industries Aerospace and Defense Systems, Inc. – Amending Resolution

Jim Paquet presented the Amendment to the Board.

In February of 1998, the MEGA awarded tax credits to Smiths Industries Aerospace and Defense Systems (Smiths) for expansion of its research and development functions in Cascade Township, Kent County. The Company produces sophisticated electronics systems for flight management and weapons management for the defense industry. Smiths was awarded a 100 percent Employment Credit and a 100 percent Business Activity Credit, each for 10 years, beginning with the 2000 tax year.

Smiths expected the expansion to add 105 jobs at an average weekly wage of $1,390 ($72,250 annually) by March 31st of this year. Although forty new professionals have been hired at an average annual salary of $72,545, those job gains have been offset by reductions in the company's preexisting employment. Renovation of an existing building and purchase of additional equipment for the project has resulted in an investment of $17.8 million.

The Smiths expansion has been delayed for several reasons. The first was the company's acquisition of a competitor in April of 1999, which took longer to digest than expected. Second, existing contracts had to be completed before job transfers from New Jersey could begin. Finally, hiring experienced engineers has been difficult in a tight labor market.

Smiths has requested that its March 31, 2000 Anniversary Date be extended for 6 to 9 months to allow it to qualify for the MEGA credit, notwithstanding the delays. Based on the company's projections, it should create the minimum number of 75 new jobs it needs to qualify for a credit by the end of October. Setting the Anniversary Date for December 31, 2000 will give the company an additional time cushion to meet its projections.

Recommendation

Staff recommends that the Anniversary Date be extended to December 31, 2000 to allow the company to meet its employment creation target. The extension will not change the schedule of the years in which the credit may be taken. If the company fails to create 75 new jobs by the end of its 2000 tax year (August 1, 2000), it will lose a year of the credit.

Madhu Anderson asked how often companies might request an extension. Mr. Paquet indicated that approximately eight companies of 85 had requested anniversary date extensions. Typically the extensions were for a year or less. Often the reasons for delay were beyond the company's control.

He added that although an extension may be given, no one receives a credit unless and until it actually creates new jobs.

Chairman Rothwell asked if there were any other questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-020 extending Smiths' Anniversary Date to December 31, 2000 be adopted.

Action Item:

AGC America, Inc.
2201 Water Ridge Parkway, Suite 400
Charlotte, North Carolina 28217

David Jeup presented the project.

AGC America, Inc. is a wholly owned subsidiary of Asahi Glass America, Inc. (AGA). AGA has investments in approximately 47 subsidiaries and partnerships throughout North America and the United Kingdom. AGC America, Inc. was incorporated in 1997 and currently has one employee in Michigan.

AGC America intends to build a new high-technology research and development facility in Ypsilanti Township, Michigan or Richmond, Kentucky. It would be the first high-technology project under PA 144 of 2000, which amended the MEGA Act to provide distinct criteria for high-technology MEGA projects.

The new facility will research new electronic related products, materials and glazing compounds for windows used in the automotive industry. The company would make a capital investment of $11.1 million, including $7.1 million in land and buildings and $4.0 million in machinery and equipment.

The project would begin as soon as site details are final with full operations scheduled to commence in March 2001. The company anticipates having 10 employees by the end of 2000 and up to 35 employees by the end of 2003. Average weekly wages would be $1,899 and the company would offer a benefit package approximating 22 percent of wages.

According to the economic analysis done by the Michigan Economic Development Corporation using REMI software, it is estimated the facility will generate a total of 83 jobs in the state by the year 2019. Net state government would be increased by $2,981,000 (2000 dollars) due to the presence of this facility.

Based on figures obtained from the company, the cost disadvantage for AGC America to locate this expansion in Michigan rather than Kentucky amounts to approximately $750,000 annually over the term of the incentive.

The most significant factors in this differential are wages and taxes due to tax incentives granted in Kentucky. Additionally, the company would utilize an existing site in Kentucky compared to spending $2.1 million for land and site development costs in Michigan. The Michigan Economic Development Corporation has reviewed these cost differentials and believes them to be accurate.

The State of Michigan will provide AGC America a 100 percent abatement of the six-mill State Education Tax valued at $266,630.

Ypsilanti Township will be providing the company with a 50 percent abatement of real and personal property taxes for a period of 12 years, estimated to be worth up to $1,106,406.

Recommendation

The Michigan Economic Development Corporation recommends a MEGA Employment Credit of 100 percent for twenty years and a Business Activity Credit of 100 percent for fifteen years, for up to 35 net new jobs. (Authorization is being requested for a high-tech MEGA credit.)

Board Discussion

Tim Ward presented the report of the Executive Committee. In addition to the cost disadvantages already mentioned, the Executive Committee focused on the high wages to be paid at the project and that AGC's parent already has manufacturing facilities at competing sites. The company would provide the state with the diversity of employment focusing on high technology, which the state is seeking.

Mr. Rothwell added that this would be the State of Michigan's first High-Tech MEGA. The Project would have to create 25 jobs over 5 years rather than 75.

Mr. DeNooyer asked if the project would be counted against the 25-project cap. Mr. Rothwell said no, that high tech projects have a separate cap of 50 projects per calendar year. Mr. DeNooyer asked if the talent pool in Michigan had been a factor in the decision and whether a manufacturing plant would follow.

A representative of the company replied that a manufacturing operation could follow in the future and that the outstanding Chemistry program at MSU and U of M were factors in the decision. He explained that the project would develop components for "heads-up" displays on car windshields and other communications components for "smart cars."

Chairman Rothwell asked if there were any further questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-021 awarding tax Credits to AGC America, Inc. be adopted.

Action Item:

Forest Health Services Corporation
24 Frank Lloyd Wright Drive
Lobby B, Level 4
P.O. Box 454
Ann Arbor, Michigan 48106

Jim Donaldson presented the project.

Forest Health Services Corporation provides a variety of services to specialty health care providers located throughout the United States. The company currently has 84 employees at its current headquarters in Ann Arbor, Michigan.

Forest Health has been expanding rapidly and is seeking to invest in a new corporate headquarters. The new headquarters will be located in either the former Oakwood Beyer Hospital in Ypsilanti, Michigan or in a new building in Sylvania, Ohio.

The proposed project would require an investment by the company of $20.0 million, comprised of $7.8 million in land, building, and renovation costs and $12.2 million in machinery and equipment costs. The company anticipates creating up to 488 new jobs at the facility by the end of 2003. Average weekly wages would be $1,109 and the company would offer workers a benefit package totaling approximately 30 percent of wages.

Based on the economic analysis done using REMI software, we estimate this facility will generate a total of 633 jobs in the state by the year 2005. Net state government revenues would be increased by $7,380,000 (through the year 2005) due to the presence of this facility.

Based on figures obtained from the company, the operational cost disadvantage for Forest Health Services Corporation to locate this expansion in Michigan for the first ten years is approximately $11,798,500. In years eleven through twenty of the analysis, Michigan has a cost advantage for the company, reducing the twenty year cost gap to $9.2 million.

The single factor in this differential is due to tax incentives offered in Ohio for the first ten years of the project. The Michigan Economic Development Corporation has reviewed these cost differentials and believes them to be accurate.

The State of Michigan will provide Forest Health Services Corp. a 100 percent abatement of the six-mill State Education Tax valued at $85,608. In addition, the state will offer job training assistance of $500 each for up to 488 net new jobs, or up to $244,000.

The former Oakwood Beyer Hospital building would actually cost more to renovate than building a new facility in Sylvania, Ohio. This, coupled with the fact that a more favorable tax situation exists in Ohio, makes it very difficult to keep this operation in Michigan. A MEGA tax credit is necessary to offset these factors.

Recommendation

The Michigan Economic Development Corporation recommends a MEGA employment credit of 75 percent for up to 488 net new jobs for a period of five years.

Board Discussion

Tim Ward presented the report of the Executive Committee. He explained that the Committee focused on the $9 million tax differential and the significant number of jobs involved. Subsequently, he learned that the company would not have Certificate of Need issues in Ohio as it will in Michigan.

Mr. Rothwell asked a representative of the company to explain what it does. Larry Lenz explained Forest Health System develops specialty health care programs whose goal is to deliver care with the lowered costs through specialized facilities. They are currently operating in four states and it is their hope to expand. They currently offering surgery services for morbidly obese people and it is their hope to diversify their services as well as expand.

Sue Lackey indicated that the facility, to which they would relocate, Oakwood Hospital, closed several months ago. Residents were concerned that the building would deteriorate and could not be utilized for any other business. The community is very supportive of the relocation of Forest Health Services Corporation to the Oakwood Hospital facility because it is an excellent adoptive use.

Chairperson Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-022 awarding tax credits to Forest Health Services Corporation be adopted.

Action Item:

Lakeside Machine, Inc.
P.O. Box 151
Gladstone, Michigan 49837

Jim Donaldson presented the project.

Lakeside Machine, Inc. is a supplier of machined parts to the construction equipment, mining, automotive and agricultural industries. The company currently has 128 employees in Gladstone, Michigan.

Due to new business opportunities, the company needs to expand its production capacity. The company is looking at constructing a new facility in the City of Gladstone's industrial park, or moving the company to an existing building in Burlington, Iowa.

The Project would require an investment by the company of $3.6 million in building and $5.5 million in machinery and equipment, for a total of $9.1 million. Construction would begin in October 2000 and production at the new facility would begin in June 2001. The company anticipates creating up to 90 new jobs at the facility by the end of 2003. Average weekly wages would be $610 and the company would offer workers a benefit package totaling approximately 25 percent of wages.

According to the economic analysis done by the University of Michigan, this facility will generate a total of 276 jobs in the state by the year 2010. Net state government revenues through the year 2010 would be $6,353,000 due to the presence of this facility.

Based on figures obtained from the company, the cost disadvantage for Lakeside Machine, Inc. to locate this expansion in Michigan rather than Iowa amounts to approximately $781,000 annually over the term of the incentive.

The most significant factor in this differential is wages, which are approximately 15 percent lower in Iowa. Also, Iowa would exclude Lakeside Machine, Inc. from any tax liability. The Michigan Economic Development Corporation has reviewed these cost differentials and believes they are accurate.

The State of Michigan will provide Lakeside Machine, Inc. a 100 percent abatement of the six-mill State Education Tax valued at $234,126. In addition, the state will offer job training assistance of $500 each for up to 90 net new jobs, or up to $45,000.

The City of Gladstone will be providing the company with a 50 percent abatement of real and personal property taxes for 12 years, estimated to be worth up to $1,083,397. The city is also donating land worth $140,000.

Although we are not able to completely offset the cost differential for this project, the company has a highly productive workforce with a good work ethic in Michigan. Also, the company realizes that some intangible costs would incur in attempting to get another facility started out of state. The company has indicated that the offer made by the state and local governments is enough to tip the scales in favor of Michigan.

Recommendation

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 90 net new jobs for a period of nine years and a business activity credit of 100 percent for a period of nine years.

Board Discussion

Tim Ward presented the report of the Executive Committee. The three key factors focused on by the Executive Committee included wage differential, favorable corporate tax system in Iowa and proximity to the Iowa location of the company's construction equipment customers.

Member Duncan asked how significant an employer Lakeside was in Gladstone. The City Manager responded that Lakeside has a substantial economic impact on the community and would be a big loss if it moved from the area.

Chairperson Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-023 awarding tax credits to Lakeside Machine, Inc. be adopted.

Action Item:

Target Corporation
1000 Nicollet Mall
P.O. Box 9411
Minneapolis, Minnesota 55440-9411

Jim Donaldson presented the project.

Target Corporation is a publicly traded, broad line retail company. Hudson's, Marshall Field, and Target are all retail outlets for the company.

Target plans to construct a new facility in either Charleston Township, near Kalamazoo, or in the Toledo, Ohio area. This warehousing and distribution center would serve Target retail outlets in the upper Midwest. Investment would be approximately $89 million that would be divided nearly equally between building and equipment. This facility is expected to employ 900 people at capacity. Average weekly wage would be $512 plus a full benefit package. The facility is expected to be fully operational in May 2002.

The economic analysis by the University of Michigan indicates the facility will generate a total of 1,518 jobs in the state by the year 2010. Net state government revenues would be increased by $43,951,000 through the year 2010 due to the presence of this facility.

Based on figures obtained from the company, the cost disadvantage for Target to locate in Michigan rather than Ohio amounts to approximately $1.5 million annually. This cost differential is primarily attributable to increased transportation costs, as calculated by the transportation companies that currently serve Target facilities. In addition, Ohio has offered Target a $5 million job creation tax credit.

The State of Michigan will provide Target Corporation an Economic Development Job Training grant of up to $500,000. In addition, up to $2.5 million in infrastructure development assistance will be provided to the site through the Community Development Block Grant program and the Michigan Department of Transportation's Economic Development Fund. The local community is providing free land for this facility that is valued at $2.5 million.

Target would not consider a location in Michigan without the MEGA credit due to the added cost of transportation that will be incurred.

Recommendation

The Michigan Economic Development Corporation recommends an employment credit of 100 percent for up to 900 new jobs for the first two years and an employment credit of 50 percent for up to 900 new jobs for the following seven years.

Board Discussion

Tim Ward presented the report of the Executive Committee. The focus on this project was costs, the large number of jobs provided to Michigan residents, and the cooperation of the local government in assisting this venture.

Member Duncan asked what the company considered the "upper Midwest." Mr. Wenger indicated that it would include Michigan, Northern Ohio and Indiana.

Mr. Rothwell indicated that Michigan has become more competitive for locations with distribution centers and advised the Board that Target Corporation would have to get the final approval from its Board for the project.

Chairman Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-024, awarding tax credits to Target Corporation be adopted with Board member Craig DeNooyer abstaining from the vote due to his involvement in Southwest Michigan First.

Action Item:

Nanovation Technologies of Michigan, Inc.
2665 S. Bayshore Drive, Suite 501
Miami, Florida 33133

David Jeup presented the project.

Nanovation Technologies of Michigan, Inc. (Nanovation) is a wholly owned subsidiary of Nanovation Technologies, Inc. Nanovation Technologies, Inc. which will design, develop and manufacture integrated optic devices. Its principal products include switches, splitters, couplers, wave guides, filters and attenuators in both Silica-on-Silicon and Indium Phosphide technologies. The company currently has no employees in Michigan.

Nanovation is looking for a site to develop, manufacture and distribute its products. The facility will house development engineers who will bring products from the research phase to the manufacturing phase. The company is proposing to invest $9.8 million in land and building and $31.8 million in machinery and equipment. Sites under consideration for this facility include existing buildings in Richardson, Texas and Northville, Michigan.

Rehabilitation of the building in Northville would begin in September 2000. Production would begin in June 2001. The company anticipates having 166 employees by the end of 2001 and up to 539 employees by the end of 2005. Average weekly wages would be $914 and the company would offer a benefit package approximating 25 percent of wages.

The economic analysis done by the University of Michigan indicates the facility will generate a total of 1,145 jobs in the state by the year 2011. Net state government revenues would be increased by $35,343,000 through the year 2011 due to the presence of the Project.

Based on figures obtained from the company, the cost disadvantage for Nanovation to locate this expansion in Michigan rather than Texas amounts to approximately $635,000 annually over the term of the incentive.

The most significant factors in this differential are wages, electrical costs, and transportation costs. The Michigan Economic Development Corporation has reviewed these cost differentials and feel they are accurate.

The State of Michigan will provide Nanovation a 100 percent abatement of the six-mill State Education Tax valued at $376,656. In addition, the state will offer job training assistance of $1,000,000 for up to 539 net new jobs.

The City of Northville will be providing the company with a 50 percent abatement of personal property taxes for a period of 6 years, estimated to be worth up to $1,571,909.

In order to attract this project to Michigan, the company indicated that Michigan would have to meet or exceed the offer from Texas. In Texas, the company would be exempt from corporate taxes. Also, the company's customers and suppliers are all located in other parts of the United States, primarily Texas, and the coasts. The company foresees potential employee recruitment problem due to the fact that Michigan has no other semiconductor related businesses. Because this is a manufacturing "start-up", investors in the company are not going to allow the company to put this in a location with a major cost disadvantage. The company, however, likes Michigan and the facility it found in Northville can be retrofitted for its use.

Recommendation

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 539 new jobs for a period of eleven years and a business activity credit of 100 percent for a period of eleven years. (Authorization is being requested for a standard MEGA credit.)

Board Discussion

Tim Ward presented the report of the Executive Committee. The credits are being offered to Nanovations to overcome cost disadvantages, because of the company's leading position in the industry and to send a message to high-tech companies that they are welcome in Michigan.

Ron Wagner, the company's representative, explained that Nanovation's technology could result in a dramatic improvement in the telecommunications and data transmission over fiber optic networks. The company is developing hi-speed photon switches, splitters and other devices which will generate no heat, consume no electricity, take up less space, and will increase speed by many multiples.

Mr. Rothwell indicated that the cost gap would be totally offset.

He indicated that a cost gap isn't the primary factor in the location decisions of high-tech company's like Nanovations which face pressures to be located near their customers and other companies in their industry. Michigan doesn't have the pull of intangibles for tech companies like it has for companies in the auto industry. We expect that in addition to closing the cost gap we have to make up for the lack of intangibles that might otherwise help to attract high-tech companies.

Chairperson Rothwell asked if there were any questions from the Board. There being none, it was moved, supported and carried that Resolution 2000-025 awarding tax credits to Nanovation of Michigan, Inc. be adopted.

The meeting was adjourned at 11:00 a.m.