

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 August 20, 1999 at 12:00 p.m.

Members Present:

Doug Rothwell
David Porteous
Beth Chappell (via phone)
Phil Kazmierski (acting for and on behalf of James R. DeSana)
James Garavaglia
John McCormack
Nancy Taylor (acting for and on behalf of Mark A. Murray)
Mary Lannoye (acting for and on behalf of Janet E. Phipps)

Members Absent:

None

Others Present:

Dawn E. Baetsen, Director, National Business Development, Michigan Economic Development Corporation (MEDC)
Chuck Birr, Executive Director, Allegan County Economic Development
Kathy Blake, Acting SVP, Business Development, MEDC
Paul Brewer, Operations Manager, Parker Hannifin Corporation
Linda Dankoff, Michigan Economic Growth Authority (MEGA) Specialist, Michigan Business Development (MBD), MEDC
Jim Donaldson, Acting VP, MBD, MEDC
Cristine Dreese, Recording Secretary to the MEGA Board, MEDC
Michael Guthrie, President, TruMack Assembly, L.L.C.
Jeff Horner, Research Associate, Citizen's Research Council of Michigan
Kendra Howard, Legislative Policy Analyst, House of Representatives
Thomas Hudson, Manufacturing Support Manager, Parker Hannifin Corporation
Kathleen McMahon, Communications Director, MEDC
Jim Paquet, Secretary to the MEGA Board, MEDC
Mike Pohnl, MEGA Specialist, MBD, MEDC
Tom Schimpf, Assistant Attorney General, Michigan Attorney General's Office
Joel M. Thompson, Mayor, City of Otsego

Call To Order

The meeting was called to order by Chairperson Rothwell at 12:10 p.m.

Adoption of the Minutes from the May 12, 1999 Meeting

It was moved, supported, and carried that the minutes from the May 12, 1999 meeting be adopted.

Public Comment

There were no comments from the public.

Prior to commencing with the agenda items, Chairperson Rothwell asked individuals in the room to introduce themselves and their affiliations.

Action Items

***Parker Hannifin Corporation
6035 Parkland Boulevard
Cleveland, Ohio 44124-4141***

Chairperson Rothwell introduced Jim Donaldson from the MEDC and asked him to present the project. Before beginning the presentation, Mr. Donaldson introduced representatives of the company and guests from the local community who were present on behalf of the project. Mr. Birr, of Allegan County Economic Development, stated that Parker Hannifin is one of the largest employers in their community and expressed his support of the project on behalf of all the local communities effected. Mayor Thompson stated that he was thrilled to have Parker Hannifin expand its facility in Otsego. Mr. Donaldson then summarized the key points from the briefing memo.

Project Description

Parker Hannifin is a publicly traded company which makes a variety of products ranging from industrial instruments to O rings. It has expanded steadily through sales growth and acquisitions and now employs approximately 40,000 people. Michigan employment is 2,156 where Parker Hannifin owns several operations, including three facilities in Otsego in Allegan County. The proposed project is at the Brass Products Division and Pump & Motor Division facilities, which produce fittings and valves for a wide range of uses.

The company is considering expanding either its Otsego or Albion, Indiana operations. The Otsego facilities currently employ about 860. The company would add 87 new employees within five years. Capital investment is approximately \$21 million with about \$16 million for machinery and equipment and \$5 million for new building construction. The company estimates that it will take until 2003 to have all equipment installed and the facility ready to operate at full capacity. The company will pay an average weekly wage of \$698/week with a full benefit package. The Otsego operations are competing with a "sister" facility in Albion, Indiana which was established in 1983 as a branch of the Otsego plant.

The economic analysis done by the University of Michigan estimates this facility will generate a total of 142 jobs in the state by the year 2011. Total state revenues through the year 2011, net of MEGA costs, and adjusted for inflation, would be increased by \$5,166,000 (1999 dollars) due to the presence of the Parker Hannifin facility.

Based on the figures obtained from the company, the annual cost differential between the Michigan and Indiana locations ranges from over \$1 million during the first year to zero by year 11. The major cost differential in early years is the Single Business Tax. As this tax decreases, wages become the largest factor. All factors in the cross state comparison are based on actual operating costs for the Otsego and Indiana facilities. Michigan Economic Development Corporation staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Indiana.

Parker Hannifin expects a 12-year property tax abatement from the Village of Otsego. The value of the local abatement could be up to \$1,742,000. In addition, the full 6-mill abatement of the State Education Tax, worth up to \$493,000, has been offered.

Other assistance would include Economic Development Job Training of up to \$43,500 or \$500 per new employee for up to 87 net new employees.

The company has the capacity at the Indiana facility to take on this project with lower capital expenditures due to underutilization of the current site. In addition, the wage rates are lower for the Indiana site.

Staff Recommendation

The Michigan Economic Development Corporation recommends a 100 percent employment credit for 10 years for up to 87 net new employees.

Board Members' Discussion

Vice Chairperson Porteous gave the report of the Executive Committee. He started by stating that he thought it was wonderful to hear the comments made by Mr. Birr and Mayor Thompson on behalf of the project and local community. He stated the Executive Committee had concluded that these were excellent paying jobs especially for a small community like Otsego. He was pleased to hear local officials confirm that Parker Hannifin was a good corporate citizen and said that the Executive Committee was impressed by the incentives the local community provided. Mr. Porteous stated the Executive Committee was recommending the Parker Hannifin Corporation project to the full Board.

Chairperson Rothwell asked for discussion from the Board. Member McCormack asked how many of the projected jobs were professional/skilled jobs vs. entry level jobs? The answer was 16-20 of the jobs will be professionally-skilled level jobs and the remainder would be entry level positions.

Board Member Chappell expressed her support of the project.

There being no further questions from the Board, it was moved, supported, and carried that Resolution 1999-010 awarding tax credits to Parker Hannifin Corporation be adopted.

Hi-Lex Controls, Incorporated - Amending Resolution

Chairperson Rothwell asked Dawn Baetsen to present the proposed Hi-Lex Controls Inc. amendment. Ms. Baetsen reported that the company had created 176 new jobs since receiving its MEGA award in 1996. However, because of a tight labor market, the company has experienced a 40% turnover in employees and a significant portion of the new employees are still at a probationary wage. As a result, the company was unable to meet the Average Weekly Wage required to receive its MEGA Tax Credit.

The company is requesting a reduction of the Average Weekly Wage during the first three years of the credit.

Mr. Porteous stated that the Executive Committee was recommending the change and saw a difference between Hi-Lex and TruMack, which would be discussed later. While the Committee felt that the company might have avoided the problem by paying a higher wage, it was pleased that the company was adding more jobs than originally projected. It also appeared that the company would achieve the required Average Weekly Wage fairly quickly, if not within the original time frame.

Mr. Rothwell stated that the standard he used in evaluating requests for amendments was to ask the question, "Would the MEGA Board have awarded the tax credit under the terms currently being proposed?" He thought the answer to that question was yes, in this case, and that even at a slightly lower wage level this was a solid project. He therefore supported the change.

Board Member McCormack observed that the numbers in a company's application were projections. While we want those numbers to be as realistic as possible, we have to recognize they are subject to change. On the positive side, people were being hired more quickly than projected.

Chairperson Rothwell indicated that to the extent wages were lower than expected the credit, which is based on payroll, would be smaller.

Mr. Porteous expressed a concern about applicants inflating wage and job numbers and asked whether the Board ought to consider setting standards or guidelines against which requested amendments could be evaluated.

Chairperson Rothwell suggested that an alternative to standards was to evaluate each deal on its merits, as the Board was doing today. Board Member McCormack agreed.

It was moved, supported, and carried that Resolution 1999-011 granting an amendment to the original Resolution (1996-009 dated June 11, 1996) for Hi-Lex Controls Inc. be adopted.

Ms. Lannoye voted no on the resolution.

TruMack Assembly, L.L.C. - Amending Resolution

Chairperson Rothwell asked Ms. Baetsen to present the proposed TruMack Assembly, L.L.C. amendment. Ms. Baetsen explained that TruMack was seeking a reduction of its Average Weekly Wage from \$480 to \$453 because of pressure from its customer, Ford, to cut unit costs.

After Ms. Baetsen spoke, Mike Guthrie asked to address the Board. Mr. Guthrie explained that the original business case for TruMack was driven by the number of chassis it could produce. Because power trains, provided by Ford, were being diverted to other products, the number of units to be produced had declined. That development, together with unit cost reductions, had led the company to request a revision in the Average Weekly Wage. After further discussions with Ford, which had assured TruMack that more power trains would be made available, and another look at the cost numbers, the company had decided that it could manage the wage issue. As a result, the company was withdrawing its request for the amendment.

On behalf of the Executive Committee, Mr. Porteous thanked Mr. Guthrie for coming to the meeting to personally address the issue.

The meeting was adjourned by Chairperson Rothwell at 12:45 p.m.