

ADOPTED MINUTES

A meeting of the Michigan Economic Growth Authority (MEGA) was held at the Michigan Economic Development Corporation, 300 N. Washington Square, on August 23, 2005, at 10:00 a.m.

Members Present

Bo Garcia
David Hollister
Sande MacLeod
Scott Schrager (acting for and on behalf of Jay Rising, authorization attached)
Jackie Shinn (acting for and on behalf of Gloria Jeff, authorization attached)

Others Present

Peter Anastor, MEDC
Tim Dempsey, City of East Lansing
Martin Dober, ASTI
Jim Donaldson, MEDC
Jim Linton, AKT Peerless
Fabian Knizacky, Mason County
Carol Knobloch Johns, MEDC
William Kratz, City of Ludington
David Krause, Corey Partnership, LLC
Jim McBryde, MEDC
Mac McClelland, Otwell Mawby, P.C.
H. Kirk Meadows, Honigman, Miller, Schwartz and Cohn
Susan Novakoski, MEDC
Jim Paquet, Secretary to the Board
Matthew Rick, Attorney General's Office
Doug Smith, City of Troy
Vern Taylor, MEDC
Steve Willobee, MEDC

Call to Order

David Hollister called the meeting to order at 10:06 a.m.

Approval of Minutes from August 1, 2005

After review, a motion was made, supported and carried that board meeting minutes from the August 1, 2005 meeting, be adopted.

Public Comment

There was no public comment.

ACTION ITEM

*City of East Lansing Brownfield Redevelopment Authority
410 Abbott Road
East Lansing, Michigan 48823*

The project will redevelop the site at 601-605 East Grand River Avenue and 116 Bailey Street. Corey Partnership, LLC, intends to construct a four-story building consisting of 27 one and two-bedroom apartments in 29,996 square feet of space and 4,575 square feet for commercial/retail use. Steve Willobee introduced Tim Dempsey from the City of East Lansing. After introducing David Krause from Corey Partnership, LLC, and Jim Linton with AKT Peerless Environmental Services, Mr. Dempsey presented the project to the board. The existing structures will be demolished. The commercial/retail space will be at street level. The overall estimated investment for the development is \$3.6 million.

Construction is expected to begin by late summer of 2005. The new building is expected to be up and enclosed by the end of 2005, with interior finishing being completed in early 2006. Residential units are expected to be available for rent by summer 2006. The estimated price range for the units will range from \$650 (one-bedroom units) to \$1200 (two-bedroom units) per month. The developer anticipates creating three one-bedroom units and 24 two-bedroom units.

Redevelopment of the site will require the demolition of the existing structures, improvements to the public infrastructure, and site preparation. The public infrastructure improvements will focus on the installation of new sewer and water lines. Also, site preparation will include the installation of caissons to allow new construction on unstable soil at the site. Soil testing indicates that the new caissons will need to be 20 to 30 feet in depth.

Brownfield Work Plan approvals are based on several criteria outlined in the statute. These criteria have been met.

This project will result in the redevelopment of a functionally obsolete Brownfield site. The taxable value on property will increase from approximately \$300,000 to over \$1 million. The City of East Lansing proposed that the developer make substantial changes to their original plan, which was targeted at the student housing market. The developer accommodated the community's request, by revising the project in the interest of helping the City create a "cool" downtown. This project will target the development of multiple housing markets pursuing families, couples, young professionals, and others who wish to live in the downtown area, rather than exclusively targeting the student population. This change has also lowered the intended density of the project and created a substantial gap between the cost of the project and its projected earnings. This plan is intended to help fill that gap.

Based on estimates provided by Corey Partnership LLC, depending on the use of the 4,575 square feet of commercial space, between 10 and 60 jobs could be created. The higher estimate would result from a restaurant use rather than other professional or commercial/retail uses.

The project is located in a core community and according to the Department of Labor and Economic Growth, the City of East Lansing's unemployment rate was 7.6% in June, 2005. This compares to the statewide average of 6.8% and national average of 5%.

The developer will invest approximately \$3.6 million for the redevelopment and reuse of this site.

This project is requesting Brownfield Tax Increment Financing in the amount of \$514,000. The Downtown Development Authority is also contributing \$132,000 toward the redevelopment of the site for the installation of an elevator. The City has already approved the PA 381 work plan and modified their DDA development plan. The private sector contribution to this project is expected to be approximately \$3.6 million. A Single Business Tax credit was approved on August 1, 2005 for up to \$300,000.

PROJECT COSTS

Demolition	\$ 80,000
Site Preparation	\$300,000
Infrastructure	\$ 75,000
Act 381 Work Plan	\$ 6,000
Contingency	<u>\$ 53,000</u>
Total Cost	\$514,000

There are 61.85 mills available for capture, with school millage equaling 24 mills (39%) and local millage equaling 37.854 mills (61%). The recommended tax capture breaks down as follows:

School tax capture	\$200,460 (39%)
Local tax capture	<u>\$313,540 (61%)</u>
	\$514,000

The property has been deemed to be functionally obsolete and is located within the boundaries of the City of East Lansing, a qualified local governmental unit and is the subject of a brownfield plan, duly approved by the City Council of the City of East Lansing on June 7, 2005.

Recommendation

The Michigan Economic Development Corporation recommends approval of the work plan request to capture school taxes not to exceed \$200,460 based on eligible activities totaling \$514,000, as described above.

Board Discussion

Bo Garcia gave the Executive Committee report. The Executive Committee recommended approval of the Work Plan and tax capture.

Hearing no further discussion, a motion was made and supported and Resolution 2005-64, authorizing the capture of school operating taxes for the City of East Lansing, for the Stonehouse Village I redevelopment project, was adopted.

ACTION ITEM

*City of Ludington, Mason County Brownfield Redevelopment Authority
5300 West US 10
Ludington, Michigan 49431
County Services Building project*

Vern Taylor introduced William Kratz from the City of Ludington, along with Mac McClelland with Otwell Mawby, P.C., and Fabian Knizacky from Mason County. Mr. Kratz presented the project to the board. Mason County is proposing to relocate Michigan Department of Corrections Probation/Parole, Community Corrections and Emergency Management to the Mason County Jail to consolidate criminal justice and public safety functions and create opportunities for continued economic development investments at the former County Service Building site that overlooks Pere Marquette Lake. The project is consistent with the City's Master Plan and is part of an overall waterfront redevelopment strategy of the City of Ludington and Mason County. Construction is anticipated to begin in the summer of 2005, to relocate public services from the County Services Building. The subject property will be offered for sale in 2006. Redevelopment of the site is anticipated in 2007, and will generate tax revenue for capture in 2008.

The relocation of public facilities and services from the County Services Building to the Mason County Jail, and the subsequent redevelopment of the County Services Building, will stimulate private investment and economic development along the north shore of Pere Marquette Lake, and will increase taxable value and tax base in an underutilized area. It should also increase access to a local park, and increase efficiencies by co-locating offices that have strong operational linkages in law enforcement and public safety on the same site.

The tax increment financing for the project will capture only local taxes to reimburse the cost of eligible activities.

Local tax capture for the project is expected to reimburse all eligible activity costs, totaling \$466,900, within nine years.

The activities to be undertaken are MEGA eligible activities under Public Act 381 as amended. The City of Ludington is a qualified local governmental unit and the property was previously used for residential, commercial, or industrial purposes.

The work plan requests approval for the following eligible activities:

• Demolition	\$	0.00
• Asbestos removal	\$	0.00
• Site Preparation	\$	0.00
• Infrastructure Improvements	\$	0.00
• Relocation of Public Bldg & Opts	\$	460,000.00
• Admin. Cost & (work plan/MEGA)	\$	<u>6,900.00</u>
Total	\$	466,900.00

Recommendation

The Michigan Economic Development Corporation recommends approval of the County Services Building work plan as submitted by the Mason County Brownfield Redevelopment Authority.

Board Discussion

Bo Garcia gave the report from the Executive Committee. The Executive Committee agrees to the capture of school operating taxes for Mason County and the City of Ludington for the County Services Building project.

Jackie Shinn had a question with regard to the Department of Corrections operations that are currently housed in the Mason County building, specifically whether the State has been leasing the space for their operations. Mr. Knizacky responded, stating that it is the responsibility of the County to provide space for the Probation and Parole operations. The County will be responsible for their relocation as part of this project.

Hearing no further discussion, a motion was made and supported, and Resolution 2005-65, authorizing the capture of school operating taxes for the City of Ludington/Mason County Brownfield Redevelopment Authority for the County Services Building project, was adopted.

ACTION ITEM

*American Systems Technology, Inc.
888 West Big Beaver Road, Suite 710
Troy, Michigan 48084*

Jim Donaldson began by introducing Martin Dober from American Systems Technology, Inc. (ASTI). Mr. Dober discussed the company's plans for expansion and request for tax credit. ASTI is a technology company that develops advanced vehicle electronics for military and automotive applications. The company has developed a technology platform called Electronic Systems Integration (ESI), which takes the concepts of the "motherboard" and "plug and play" devices from the PC industry and applies it to

vehicles. This system enables the gathering of vital vehicle data and the communication of this data to vehicle operators, maintenance and command centers. The company also has a unique "School Stream" division, which provides software applications for school districts to address operational and administrative processes. The company was founded in 1992 and is headquartered in Troy, where they currently have 35 employees.

ASTI needs to expand the research and development operations of the ESI division because of the continued success of their products developed with the US Army. Numerous commands in the Army are interested in the ESI platform, and plans are being developed to implement it across the Army's fleet of vehicles. In order to meet the demands of this growth, the company needs to double their capacity. They are considering leasing 13,000 square feet of space in Troy in order to consolidate their operations and provide space for the continued growth of the company. The project would lead to the creation of 21 new jobs in the first year of the project and 164 new jobs over five years. The new positions will pay an average starting weekly wage of \$1,343.

Total capital investment for the project would be approximately \$3.7 million, including \$2.8 million for capitalized lease costs and leasehold improvements and \$900,000 for new office furniture and computers.

It is estimated that this facility will generate a total of 176 jobs in the state by the year 2012. Total state government revenues through the year 2012, would be increased by \$1.9 million due to the presence of this facility.

In addition to Troy, ASTI is considering Huntsville, Alabama for their ESI research and development center. Huntsville is the location of the Army Material Command, which makes the decisions on these types of programs. A project cost comparison analysis between Huntsville and Troy showed lower wages and lease rates in Alabama when compared to Michigan. Wages are estimated to be 10% lower in Alabama, while lease costs are estimated to be 12% lower in Alabama. In addition, the company indicates the project will have a negative impact on their SBT due to the high compensation being paid to their workers in Michigan.

The City of Troy and other educational and economic development entities will provide a number of benefits to support this project. First, the City of Troy will commit up to \$7,000 for 15 annual passes to the community aquatic center for three years. Second, Oakland County and Automation Alley will provide \$7,500 towards a membership in Automation Alley, as well as providing free office space to ASTI, an additional value of \$3,000 annually. Additionally, Walsh College will provide up to \$7,000 in employee training, worker recruitment, career fair assistance and business assistance. Finally, the Troy Chamber will provide an executive level membership with an estimated value of \$2,300. Doug Smith was present from the City of Troy and expressed community support for this project.

Recommendation

The Michigan Economic Development Corporation recommends a 100 percent high-technology employment tax credit for seven years, for up to 164 net new employees.

Board Discussion

Bo Garcia gave the Executive Committee report. The Executive Committee has recommended approval of the requested tax credit.

Hearing no further discussion, a motion was made and supported, and Resolution 2005-66, authorizing a high-tech MEGA credit for American Systems Technology, Inc., was adopted.

ACTION ITEM

*City of Detroit Brownfield Redevelopment Authority
660 Woodward, Suite 1590
Detroit, Michigan 48226
Argonaut Building Redevelopment project*

Peter Anastor introduced H. Kirk Meadows, an attorney representing the developer for this project. This project will lead to the rehabilitation and redevelopment of an existing 11-story office building in Detroit known as the Argonaut Building. The building is an Albert Kahn design and was built between 1927 and 1936. The planned redevelopment is in the hands of Midway Corporate Plaza, LLC.

The redevelopment of the property will be in three components, residential, office and retail. The majority of the building (445,000 square feet) will be used for 275 new one and two-bedroom "industrial chic" lofts.

The second component of the redevelopment will be for 84,000 square feet of office space. Office space will be available for a variety of tenants, including small tenants that could use shared centralized resources, and up to full floor suites.

The final component will include 15,000 square feet of retail/concierge space. This component could include restaurants and cafes, cleaning services, grocery/deli/sundry shop, video rental and other small retail opportunities.

Brownfield TIF approvals are based on several criteria outlined in the statute. These criteria have been met.

The project will result in the renovation and reuse of an historic, vacant building in the City of Detroit. The project will improve the aesthetic appeal of both the building and the neighborhood and should be a centerpiece to the revitalization of the New Center area.

It is estimated that the project will create approximately 308 new retail and office jobs and 230 temporary construction jobs.

The City of Detroit's unemployment rate has averaged 14.5% from January to April, 2005. This compares to a statewide average of 7.1%, and a greater Wayne County area average of 8.9% over the same time period.

The developer will invest approximately \$67 million in the project.

The project is utilizing a number of state and local tax credits and abatements. These include Historic Tax Credits, Obsolete Property Rehabilitation Property Tax Abatements and Neighborhood Enterprise Zone status.

In addition, the MEGA Board previously approved a Brownfield Single Business Tax Credit of \$5.6 million for this project on January 18, 2005. The developer is requesting an amendment to the SBT approval to remove the demolition costs from the SBT credit and include those costs in the TIF request. This amendment would reduce the SBT Credit by \$128,758.

There are a total of 64.578 mills available for capture, including school millage equaling 24 mills and local millage equaling 40.578 mills. The mills available for Brownfield TIF reimbursement vary depending on a number of variables for this project. For this reason, the recommended tax capture breakdown varies by year.

Project Costs

Site Preparation	\$ 150,000
Public Infrastructure	\$ 394,000
Demolition	\$ 7,071,000
Work Plan Preparation	\$ 10,000
MEGA Review Cost	\$ 1,000
Contingency (15%)	\$ 1,142,250
Total	\$ 8,768,250

The approximate tax capture break down by year is:

2006-2017 (Smart Zone and/or Obsolete Property Rehabilitation Abatement)

School tax capture:	\$ 1,777,824 (100%)
Local tax capture:	\$ 0 (0%)
	\$ 1,777,824

2018-2022 (Neighborhood Enterprise Zone Status on Residential)

School tax capture:	\$ 579,099 (37%)
Local tax capture:	\$ 979,109 (63%)
	\$ 1,558,208

2023-2026 (No tax credits or abatements)

School tax capture:	\$ 1,007,542 (19%)
Local tax capture:	<u>\$ 4,424,676 (81%)</u>
	\$ 5,432,218
Total School Tax Capture:	\$ 3,364,465 (38%)
Total Local Tax Capture:	<u>\$ 5,403,785 (62%)</u>
	\$ 8,768,250

The property has been deemed functionally obsolete by the City of Detroit. The project is the subject of a brownfield plan approved by the City of Detroit on July 28, 2004.

Recommendation

The Michigan Economic Development Corporation recommends approval of the school tax capture not to exceed \$3,364,465 based on eligible activities totaling \$8,768,250, described above.

Board Discussion

Bo Garcia gave the Executive Committee report. The Executive Committee recommended approval of the requested tax capture.

Jackie Shinn discussed the planned demolition, citing that the external brick structures will remain intact and the demolition will be interior rather than exterior.

Discussion was heard regarding the wording in the resolution. Because of the multi-layered aspect of the tax increment financing and the different abatements and authorities that are involved, the MEGA is requesting annual reporting by the City of Detroit, to identify each project, the taxing jurisdiction, and the amount of school and local tax dollars that are being captured from the projects.

Matthew Rick suggested that paragraph 2 should refer to the millage levied rather than the millage to be captured. In this same paragraph on Pg. 2, reference is made to a work plan dated July 14, 2005. Vern Taylor has since received an updated work plan with revisions, dated August 11th. The revision date should be noted in the resolution.

Hearing no further discussion, a motion was made and supported and Resolution 2005-67 as amended above, authorizing the capture of school operating taxes for the City of Detroit's Argonaut Building Redevelopment Project, was adopted.

ACTION ITEM

MEGA Application Fee Policy

Jim Paquet briefly explained the current application fees for companies applying for MEGA tax credits. The fees include both an application fee and an administrative fee. Currently, the application fee is \$5,000 for Standard, Retention, and High-Tech MEGA projects, and \$1,000 for Rural MEGA projects.

Several small and start-up high-technology companies have expressed some concern over the cost of the application fee. These companies are primarily research and development companies that have limited revenue and are often utilizing venture capital or investment funding to operate. The \$5,000 application fee can create cash-flow concerns for smaller companies. The fee is seen as an unfair burden for these small companies, taking \$5,000 from them during a critical point in their development.

Recommendation

The Michigan Economic Development Corporation recommends amending the application fee policy to lower the application fee to \$1,000 for High-Tech and Rural companies with fewer than 50 employees company-wide. Companies with more than 50 employees, including rural applicants, would be subject to the \$5,000 application fee. No changes are recommended for either the standard application or administrative fee

Board Discussion

Mr. Garcia indicated that the Executive Committee has considered the recommendation and supports the amendment to the MEGA application fee policy.

Jackie Shinn asked whether financial criteria were considered as well as the number of employees that a company has. Jim Paquet said no, that the proposed change in fee is based only on the total number of employees at a company. Peter Anastor offered further clarification with regard to the administrative fee, adding that one half of one percent of the value of the MEGA tax credit is paid by the company before the credit is awarded.

Hearing no further discussion, a motion was made and supported, and Resolution 2005-68, authorizing a revised fee schedule for certain high-tech and rural credits awarded on or after August 23, 2005, was adopted.

The meeting was adjourned at 10:45 a.m.

The next meeting of the MEGA board is scheduled for Tuesday, September 20, 2005.