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 September 15, 1999 at 10:00 a.m.

Members Present:

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

Members Absent:

James Garavaglia

Others Present:

Todd Battle, Executive Director, Dickinson Area Economic Development Alliance
William Beach, Miller Canfield Attorney, City of Rockwood
Kathy Blake, Acting Senior VP, Business Development, Michigan Economic Development Corporation (MEDC)
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
Bryan Larson, Controller-Assistant Secretary, Cable Constructors, Inc.
Karl Laub, City Administrator, City of Rockwood
Corey A. Leon, Account Manager, MEDC
Kathleen McMahon, Communications Director, MEDC
Bob Morris, Group Facilities Manager, Johnson Controls, Inc.
Jim Paquet, Secretary to the MEGA Board, MEDC
Scott Rigonan, Launch Manager, Johnson Controls, Inc.
Tom Schimpf, Assistant Attorney General, Michigan Attorney General's Office
Dorn Siegler, Operations Administrator, Cable Constructors, Inc.

Call To Order

The meeting was called to order by Chairperson Rothwell at 10:15 a.m.

Adoption of the Minutes from the August 20, 1999 Meeting

It was moved, supported, and carried that the minutes from the August 20, 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

Cable Constructors, Inc.
105 Kent Street
Iron Mountain, Michigan 49801

Chairperson Rothwell introduced Jim Donaldson from the MEDC and asked him to present the project. Before beginning the presentation, Mr. Donaldson thanked the representatives of the company and guests from the local community who were present on behalf of the project for being at the meeting today. He then summarized the key points from the briefing memo.

Project Description

Cable Constructors is an employee-owned company that does mapping and lay out of cable lines for television and Internet connections in communities throughout the U.S. The company works in at least 15 states and South America, Guam, and Europe. Cable Constructors has about 700 employees worldwide and is headquartered in Iron Mountain. Total employment in Michigan is approximately 240.

This project would invest approximately $2.6 million for a new building and equipment for computer aided design (CAD) stations, including furniture, fixtures and computer equipment. The company expects to create at least 125 entry level jobs with an average wage of $8.50/hour or $341/week. The average wage rate does not include annual profit sharing, monthly production bonuses, or overtime. The company also provides extensive training in computer skills and line work.

The economic analysis done by the University of Michigan estimates the project will generate a total of 147 jobs in the state by the year 2009. Total state government revenues through the year 2009, net of MEGA costs, would be increased by $3,161,000 (1999 dollars) due to the presence of the Cable Constructors project.

Based on figures obtained from the company, the cost disadvantage for Cable Constructors to establish a new facility in South Carolina rather than expand in Michigan, ranges from $20,000 to nearly $100,000 annually over the term of the incentive. These cost differentials are due primarily to tax cost differences that decline as the Single Business tax is phased out.

The City of Iron Mountain will provide a city-owned parking lot to Cable Constructors at no cost for the term of the MEGA credit. This is in lieu of a property tax abatement, for which the company is not eligible under state law.

Cable Constructors must make a decision whether to locate this expansion in Upper Michigan or build a new facility closer to some of its larger customers in the Southeast. This decision is driven by profit and the ability to manage remote facilities. The company has experienced pressure from several of its customers to locate in the Southeast and has thoroughly investigated that option. The MEGA credit allows the company to compete for work in the Southeast without having to locate in that area.

Staff Recommendation

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for two years, 85 percent for the following three years, and 60 percent for the next four years for up to 125 new jobs.

Board Members' Discussion

Vice Chairperson Porteous gave the report of the Executive Committee. He stated that it was great to learn about Cable Constructors because many of the companies in the Iron Mountain area are either timber or mining companies. He noted that the company was growing rapidly and was using the employee-ownership concept very effectively. Mr. Porteous stated that the wage rates were modest compared to other projects receiving MEGA tax credits. The Committee considered the fact that the company would be hiring individuals who did not have the CAD skills necessary to perform the jobs and would be providing that training to them as part of their benefit's package.

Chairperson Rothwell asked for discussion from the Board. Board Member Murray asked if someone would explain why the Briefing Memo shows $20,000-$100,000 as the cost disadvantage to the company and the REMI Analysis shows a MEGA cost ranging from $72,000-$106,000; adding that he thought this was a fairly high proportion of a gap. Mr. Donaldson explained that the gap starts out in the $92,000 range and goes each year from there. The one time it is in excess of $100,000, is early in the project when the full effect of the MEGA credit has not been realized because job creation is still ramping up. Board Member Lannoye asked if the cost differential covered by MEGA actually was higher than usual in this case and if so, why? Chairperson Rothwell responded that because there were no other incentives that the State was able to offer the company, the percentage was a little higher for Cable Constructors. Even though in absolute dollars, the MEGA credit is modest, it will still effect the company's bottom line if awarded.

Chairperson Rothwell asked if there were any further questions. There being no further questions from the Board, it was moved, supported, and carried that Resolution 1999-012 awarding tax credits to Cable Constructors, Inc., be adopted.

Hoover Universal, Inc.
c/o Johnson Controls, Inc.
49200 Halyard Drive
Plymouth, Michigan 48170

Chairperson Rothwell asked Jim Donaldson from the MEDC to present the project. Before beginning the presentation, Mr. Donaldson thanked representatives of the company and guests from the local community who were present on behalf of the project for being at the meeting today. He then summarized the key points from the briefing memo.

Project Description

Hoover Universal is a wholly-owned subsidiary of Johnson Controls, Inc. Hoover Universal manufactures automotive seating and plastic machinery. Currently the company has approximately 3,500 employees in Michigan.

Hoover Universal has received the contract to supply the Chrysler Toledo Jeep facility with seats for the new KJ series Jeep product, scheduled to launch in January, 2001. Hoover's new plant must be within a one-half hour drive of the Jeep plant in Toledo. After considering several alternatives, the company decided it must either expand an existing facility in Toledo or build a new facility to accommodate this increase in business activity. The final sites under consideration by the company are Northwood, Ohio and Rockwood, Michigan.

The facility will employ 225 people and represent an $8 million capital investment. The facility will be in full operation by July 1, 2001. The company will pay an average weekly wage of $687 with a full benefit package totaling 40-45 percent of wages. 110 of the 225 required employees would be reassigned from Hoover's facility in Taylor, Michigan. The Taylor employees reassigned to Rockwood would be replaced by Hoover, resulting in no net job loss for Taylor. Total new job creation in Michigan will be 115.

The economic analysis done by the University of Michigan estimates this facility will generate a total of 266 jobs in the state by the year 2009. Total state government revenues through the year 2009, net of MEGA costs, would be increased by $7,226,000 (1999 dollars) due to the presence of the Hoover Universal facility.

Based on figures obtained from the company, the annual cost disadvantage for Hoover Universal to establish its manufacturing facility in Rockwood rather than Toledo ranges from approximately $250,000 to $3,000,000 over the term of the incentive. The cost differential is primarily attributable to site infrastructure improvements and higher unemployment and workers' compensation costs.

The State of Michigan will provide Hoover Universal with a 100 percent abatement of the six mill State Education Tax, estimated to be worth $148,741 over the term of the incentive. Economic Development Job Training funds will also be offered to the company at $700 for up to 115 net new employees for a total of $80,500 In addition, the community will be applying for a Transportation Economic Development Fund (TEDF) grant worth up to $300,000 to provide road improvements required for this project.

The City of Rockwood will provide a 50 percent property tax abatement for a period of 8 years worth approximately $517,494. The City has also authorized $1.4 million in Tax Increment Finance Authority (TIFA) funding to help defray costs of infrastructure improvements required at the site.

Without the assistance offered by the MEGA program, Hoover Universal would not locate this new facility in Michigan for the following reasons:

1. Building a new facility in Michigan will cost the company approximately $1.8 million in additional land and site costs.

2. After Year 1, the company will be at a cost disadvantage of about $250,000 per year due to higher workers' compensation and unemployment insurance rates.

3. The company's sole customer, for which this facility needs to be built, is pressuring them to place the facility as close as possible to the Toledo Jeep plant.

Hoover Universal has indicated that it would prefer a Michigan location due to the high quality of the workforce and the synergies that the company can enjoy by locating near another of its seat manufacturing plants in Taylor. The Rockwood location would also put the facility closer to its Engineering and Program Management personnel, located in Plymouth, Michigan.

Staff Recommendation

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for a period of 5 years and 75 percent for the next 4 years for up to 115 net new jobs. In addition, a Business Activity Credit of 100 percent for the first 5 years is recommended.

Board Members' Discussion

Before the report of the Executive Committee, Chairperson Rothwell mentioned that this project was on its way to Ohio until the State stepped up in an effort to "snag it" from them.

Vice Chairperson Porteous gave the report of the Executive Committee. He stated the Executive Committee had concluded that these were very fine paying jobs and that the benefits package which totaled 40-45 percent of the wages was impressive. Initially, the Executive Committee was concerned that the project would move jobs from Taylor to Rockwood, but learned that there would be no job loss at the Taylor facility because transferred jobs would be replaced. Mr. Porteous stated the project was a win-win situation for all involved. The Executive Committee also was pleased with the local community's significant support of the project and with the incentives they were offering to the company. Mr. Porteous stated the Executive Committee was recommending the Hoover Universal, Inc. project to the full Board.

Chairperson Rothwell asked for discussion from the Board. Board Member McCormack asked why the range in the cost differential was so wide ($250,000 - $3 million). Mr. Donaldson responded that the cost differential is primarily due to Hoover Universal's need to pay for all of the start-up and development costs for a new facility if it locates in Michigan, while Ohio already has a suitable facility available.

Mr. Porteous asked why unemployment insurance and workers' compensation costs fluctuated more in Michigan. Mr. Donaldson responded that because of the cyclical nature of the automotive industry and Michigan's experience-based rating system, unemployment insurance rates fluctuate more. Because Ohio does not have experience rating, everyone pays a flat rate regardless of the employment stability of a given firm or industry. He went on to say that the reason for the variance in workers' compensation rates was not as clear.

Chairperson Rothwell asked if there were any further questions. There being no further questions from the Board, it was moved, supported, and carried that Resolution 1999-013 awarding tax credits to Hoover Universal, Inc., be adopted.

The meeting was adjourned by Chairperson Rothwell at 10:50 a.m.