



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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To: Michigan Economic Growth Authority

From: Amy Deprez, Manager
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Subject: Briefing Memo – Auto-Owners Insurance Company
Standard MEGA Credit
Large Brownfield MBT Credit

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COMPANY NAME

Auto-Owners Insurance Company
6101 Anacapri Boulevard
Lansing, MI 48917-3999

HISTORY OF COMPANY

The Auto-Owners Insurance Company provides life, home, car, and business insurance in several states throughout the country. The company markets its products through 6,000 independent agencies stationed regionally to serve local markets. The Auto-Owners Insurance Company was formed in Michigan in 1916, and has been headquartered in Lansing since 1917.

The Auto-Owners Insurance Company currently has 1,880 employees in Michigan.

PROJECT DESCRIPTION

The Auto-Owners Insurance Company is in the process of developing plans for their future space needs. The company's current corporate complex, located in Delta Township, is limited in space and triggered the development of several expansion options, including the use of regional offices or expanding into a previously-purchased Greenfield site in Michigan. However, this credit will allow the company to expand its corporate complex to space across from their existing site in Delta Township.

The project, expected to occur at the facility currently occupied by Blue Cross Blue Shield of Michigan, would bring several hundred additional professionals to the company's expanded corporate complex in Delta Charter Township. The company expects to redevelop the existing facility in the future and place a 250,000 square foot, three-story building at the location. In order to facilitate this expansion, the existing clinic must be demolished. The redevelopment site has been deemed a "facility".

This expansion would require an investment of about \$105 million and create 800 jobs at their existing and expanded corporate complex. The average weekly wage for the newly created jobs will be \$819. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost.

The company is not aware of any direct impact this expansion will have on existing Michigan insurers.

BENEFIT TO STATE

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will generate a total of 1,270 jobs in the state by the year 2023. Total state government revenues through the year 2023, net of MEGA costs, would be increased by \$35 million (current dollars) due to the presence of this facility.

BUSINESS CASE

The Auto-Owners Insurance Company is considering their long-term growth plans and has two distinct paths to achieve that growth strategy. The first would focus on consolidated corporate offices, which is the option being considered for their Delta Township facility. While this approach does provide some inherent benefits, their second approach could ultimately provide the company with greater flexibility and cost-savings.

The company's other growth strategy option is regionally-focused: the company would invest in numerous facilities outside of Michigan. This is attractive to the company for a few reasons: first, the Auto-Owners Insurance Company has existing capacity in facilities outside of Michigan, which would require less capital investment to achieve the same projected growth. Secondly, the cost of labor and construction are lower in some of the regions they are considering, and therefore more attractive for investment. Third, a regional approach would provide the company with more opportunities for regional branding, which is attractive because much of their growth is based outside of Michigan.

The MEGA Tax Credit makes the consolidated corporate approach more attractive by decreasing the marginal cost of Michigan-based employees. Not all of the benefits of the regional approach can be overcome through the MEGA Tax Credit.

OTHER STATE AND LOCAL ASSISTANCE

Delta Charter Township is supportive of this project and will consider property tax abatements through the Commercial Rehabilitation program and P.A. 328 of 1998. The MEDC estimates the value of these abatements at over \$3.6 million in state and local resources.

MICHIGAN BUSINESS TAX CREDIT REQUEST

Project Eligible Investment:	\$89,300,000
Requested Credit Amount:	\$5,800,000
Requested Credit Percentage:	12.5%

QUALIFYING CRITERIA

The project is located within the boundaries of Delta Charter Township, which is not a qualified local government unit; however, the site has been deemed a facility as verified by Department of Environmental Quality. The property is the subject of a Brownfield Plan, duly approved by Delta Charter Township on October 5, 2009.

KEY STATUTORY CRITERIA

a) **Benefit to the Public:**

A large portion of the project site was previously owned by Blue Cross Blue Shield of Michigan, which made it exempt from property taxes. This redevelopment will place a valuable asset back on the tax rolls for local authorities and the State of Michigan. In addition to the increase in tax base, Auto-Owners will be remediating a contaminated site into a high-end office operation resulting in the creation of 800 jobs.

b) **The extent of reuse of vacant buildings and redevelopment of blighted property:**

The company expects to redevelop the existing facility in the future and place a 250,000 square foot, three-story building at the location. In order to facilitate this expansion, the existing clinic must be demolished.

c) **Jobs Created:**

It is anticipated that the project will create 800 jobs.

d) **Area of High Unemployment/Core Community:**

Delta Charter Township's unadjusted unemployment rate was 9.4% in August 2009. This compares to the statewide seasonally adjusted average of 15.2% in August 2009.

e) **The level and extent of contamination alleviated by the qualified taxpayer's eligible activities to the extent known to the qualified taxpayer:**

The site's characterization includes locations containing concentrations of heavy metals, as well as silver contamination under an existing structure. These areas of contamination will be addressed prior to the commencement of full redevelopment.

f) **The level of private sector contribution:**

The total capital investment on the project is anticipated to be approximately \$105 million.

g) **The cost gap that exists between the site and a similar greenfield site as determined by the Michigan economic growth authority:**

No Greenfield properties were considered for this project.

h) **If the qualified taxpayer is moving from another location in this state, whether the move will create a brownfield:**

This project will not create an additional Brownfield property.

i) **Whether the project is financially and economically sound:**

After reviewing the financial information submitted by the company, the MEDC believes the project is financially and economically sound.

- j) Any other criteria that the Michigan economic growth authority or the chairperson of the Michigan economic growth authority, as applicable, considers appropriate:

This project will be part of a broader redevelopment in that it represents a significant commitment by Auto-Owners to plan for and accommodate growth within its Delta Charter Township corporate complex, as opposed to another site with Michigan or out-of-state.

ELIGIBLE INVESTMENT BREAKDOWN

Site Improvements	5,100,000
New Construction	71,700,000
Machinery & Equipment	+ 12,500,000
TOTAL	\$ 89,300,000

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent employment tax credit for 10 years for up to 800 net new employees in excess of the company's established base of 1,880 beginning December 31, 2014.

In addition, the Brownfield Staff recommends approval of a 12.5% MBT Brownfield Credit, not to exceed \$5,800,000.