



## MEMORANDUM

**TO:** Delegates of the Michigan Strategic Fund ("MSF") Board for the Michigan Business Development Program

**FROM:** Marcia Gebarowski, Senior Development Finance Manager

**DATE:** March 21, 2013

**SUBJECT:** Approval of Michigan Business Development Request for \$750,000 Performance-based Grant to:

Detroit Thermal Systems, LLC ("Applicant" or "Company")  
6505 Cogswell  
Romulus, Michigan 48174  
www.detroitthermalsystems.com

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### MBDP PROGRAM AND ITS GUIDELINES

On December 21, 2011, the MSF Board approved the Michigan Business Development Program ("MBDP") and its guidelines. The primary intended objective of the MBDP is to provide incentives to businesses that create qualified jobs, make qualified investments, or a combination of both, in Michigan.

### SOURCE OF INFORMATION

It is the role of the Development Finance staff ("MEDC Staff") to review for eligibility, completeness, and adherence to MBDP guidelines, the information provided by the applicant and to manage the MSF's investment. Explanatory and background information is supplied in summary form to provide context for the request and is drawn exclusively from materials submitted by the applicant, and, as applicable, from other relevant third party sources utilized by MEDC staff.

### HISTORY OF THE APPLICANT

Detroit Thermal Systems LLC is a newly formed joint venture between V. Johnson Enterprises and Valeo, Inc. The LLC was formed in October 2012 and acquired the book of business from the Ford/ACH facility in Plymouth, MI. Detroit Thermal Systems (DTS) will develop and manufacture high quality climate control systems and components for the automotive industry.

The Applicant has not received any incentives from the MSF previously.

### **PROJECT DESCRIPTION**

The Applicant plans to lease an existing building at 6505 Cogswell Street in the City of Romulus (Wayne County). The Company plans to make renovations to this building, add machinery & equipment and other personal property related to this new operation as well as create new jobs to manufacture automotive components.

- a) The Applicant is a "Qualified Business", as defined in MCL 125.2088r(9)(b), that is located in and operates in Michigan.
- b) The project will be located in City of Romulus. The City of Romulus has offered a "staff, financial, or economic commitment to the project" in the form of a PA 198 or other property tax abatement for a period of five or more years. The estimated minimum value of this incentive is \$835,000.
- c) The Applicant has demonstrated a need for the funding. A Tennessee location was also considered as an alternative to locating in Michigan. Tennessee offers lower facility costs, taxes, and utilities.
- d) The Applicant plans to create 312 Qualified New Jobs above a statewide base employment level of 13.
- e) Pursuant to the program guidelines, the following was taken into consideration for the proposed project: The Company indicates that the investment and job creation will begin in the first quarter of 2013, involves the re-use of an existing facility in an urban community and results in a positive ROI for Michigan.

### **INCENTIVE OPPORTUNITY**

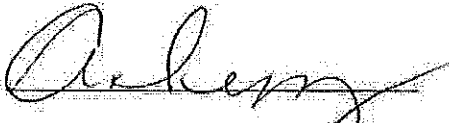
This project involves the creation of 312 Qualified New Jobs, with the potential for up to 395 total jobs as a result of the Project, and a capital investment of up to \$27 million in the City of Romulus. The requested incentive amount from the MSF is \$750,000 in the form of a performance-based grant. Please see below for more information on the recommended action.

### **RECOMMENDATIONS**

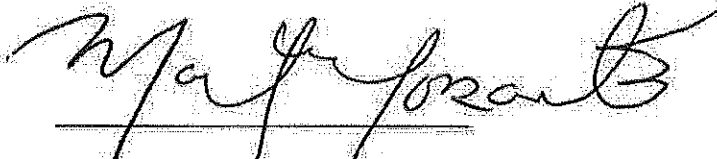
MEDC Staff recommends (the following, collectively, "Recommendation"):

- a) Approval of the MBDP Proposal as outlined in the attached term sheet (collectively, "MBDP Proposal");
- b) Closing the MBDP Proposal, subject to available funding under the MBDP at the time of closing ("Available Funding"), satisfactory completion of due diligence, (collectively, "Due Diligence"), finalization of all MBDP transaction documents, and further subject to the following terms and conditions:
  - a. Commitment will remain valid for 120 days with approval for MSF Fund Manager to extend the commitment an additional 60 days.

**APPROVAL AUTHORITY – MBDP SUPPORT MEMO**  
**Michigan Economic Development Corporation**



**Amy Deprez, Director, Development Finance**

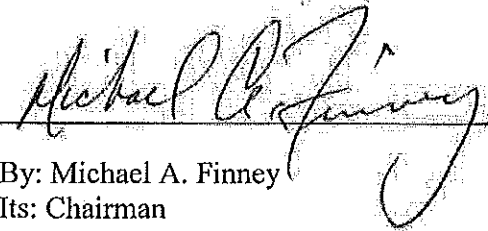


**Mark Morante, Senior Vice President, Program Management**

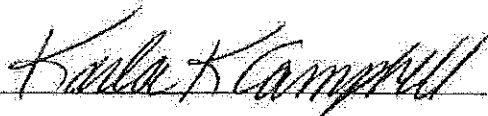
The Recommendation is approved subject to Available Funding and Completion of Due Diligence, and execution of all MBDP transaction documents, all in accordance with the MBDP and its guidelines:

Note: To utilize the delegation authority granted by the MSF Board, the approval of the Chairperson, and either the MSF Fund Manager or the MSF State Treasurer Director, are required for this commitment under the MBDP:

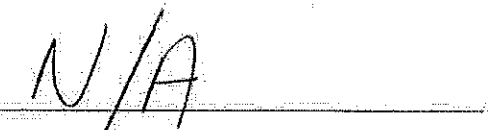
**Michigan Strategic Fund**



By: Michael A. Finney  
Its: Chairman



By: Karla K. Campbell  
Its: Fund Manager



By: Andy Dillon, State Treasurer  
Its: Director

Detroit Thermal Systems, LLC



**MICHIGAN BUSINESS DEVELOPMENT PROGRAM  
Performance Based Grant - Term Sheet**

The following is a summary of the highlights of the project and basic terms for which the Company desires grant support from the Michigan Strategic Fund ("MSF") under the Michigan Business Development Program ("MBDP"). While the MBDP is operated and funded through the MSF, recommendation for approval of a MBDP Incentive award is presented by the Michigan Economic Development Corporation ("MEDC") to the MSF.

Date: 3/11/2013

1. **Company Name:** Detroit Thermal Systems, LLC ("Company" or "Applicant")
2. **Company Address:** 6505 Cogswell Street  
Romulus, Michigan 48174  
www.dtsllcna.com
3. **MBDP Incentive Type:** Performance Based Grant
4. **Maximum Amount of MBDP Incentive:** Up to \$750,000 ("MBDP Incentive Award")
5. **Base Employment Level:** 13  
The number of jobs currently maintained in Michigan by the Company based on data submitted by the Company to the MEDC reflecting the Company's statewide employment level in Michigan prior to the proposed project. The Base Employment Level, including identification of the Company data used to establish this level, shall be included in the final MBDP Incentive Award agreement ("Agreement") between the MSF and the Company.
6. **Total Qualified New Job Creation:** 312  
*(above Base Employment Level)*  
The minimum number of total Qualified New Jobs the Company shall be required to create in Michigan (above the Base Employment Level), in addition to satisfying other milestones if applicable, to be minimally eligible to receive the full amount of the MBDP Incentive Award. Each Qualified New Job must be performed for consideration by a Michigan resident (whose Michigan income taxes are withheld as required), and each Qualified New Job must be in excess of the Base Employment Level. The final terms and

conditions of the requirements for the minimum number of Qualified New Jobs that must be created, including provisions addressing disbursements of portions of the MBDP Incentive Award, shall be included in the final Agreement.

- a. **Start Date for Measurement of Creation of Qualified New Jobs:** Date of Approval of MSF Award
- 7. **Company Investment:** Up to \$27,073,125 in lease costs, building renovations, leasehold improvements, machinery and equipment, special tooling or any combination thereof, for the Project.
- 8. **Municipality supporting the Project:** City of Romulus
  - a. **Municipality Support.** One of the conditions of execution of the final Agreement is the requirement that the municipality shall have committed to provide: a property tax abatement. The final terms and conditions demonstrating this support shall be included in the final Agreement.
- 9. **Disbursement Milestones:** The final terms and conditions of each of the disbursements of any portion of the MBDP Incentive Award shall be included in the final Agreement, including that before any disbursement is made to the Company, the Company must have maintained: (i) the Base Employment Level (exclusive of the number of Qualified New Jobs then created) and (ii) any Qualified New Jobs created for which disbursements by the MSF have been made, and must otherwise be in compliance with all terms and conditions of the final Agreement, and further shall include:
  - a. **Disbursement Milestone 1:** Up to \$400,000 Upon demonstrated creation of 75 Qualified New Jobs above the Base Employment Level and verification of final approval of municipality support by no later than March 31, 2014.
  - b. **Disbursement Milestone 2:** Up to \$200,000 Upon completion of Disbursement Milestone 1, and upon demonstrated creation of 125 additional Qualified New Jobs above the Base Employment Level, by no later than March 31, 2015.
  - c. **Disbursement Milestone 3:** Up to \$150,000 Upon completion of Disbursement Milestone 1 and Disbursement Milestone 2, and upon demonstrated creation of 112 additional Qualified New Jobs above the Base Employment Level, by no later than December 31, 2015.

10. Term of Agreement:

Execution of Agreement to December 31, 2017

11. Repayment Provisions:

Repayment provisions are required by law. The Repayment terms and conditions will be effective through the Term of the Agreement and shall be defined in the final Agreement. The final repayment provisions may require repayment of some or all of the disbursements made by the MSF, including if the Company moves 25% or more of their employees out of Michigan, if the Company fails to maintain the Base Employment Level in Michigan, if the Company fails to maintain the Qualified New Jobs Incented by this Award.

12. Reporting Requirements:

Periodic reporting will be required with this program. The detailed information needed from the Company will be included in the final Agreement, but will include Project reporting for such things as: amount of proposed incentive, amount of actual Incentive received by Company; amount of proposed and actual investment made by Company for Project; the committed number of new jobs and the actual number of new jobs created as a result of the Project; the educational attainment of the employees hired; the number of new patents, copyrights, or trademarks applied for and issued to the Company; the number of licensing agreements by the Company and the number of such licensing agreements entered into by the Company with Michigan based firms; and any products commercialized by the Company.

13. Public Announcements:

The Company shall not make, or cause, any announcement of the proposed MBDP Incentive Award parameters outlined in this letter before the date of approval by the MSF of the MBDP Incentive Award, unless prior authorized and coordinated with the MEDC.

Any final MBDP Incentive Award is contingent upon several factors, including: (i) submission by the Company of a completed application and all other documentation required under the MBDP; (ii) satisfactory municipality support; (iii) available MSF funding; (iv) completion of financial review, business integrity review, required background checks, and other business and legal review and due diligence as required, and the results of which must be satisfactory to the MEDC, the MSF, and as applicable, the Chief Compliance Officer; (v) approval of an award by the MSF, and (vi) execution of a final Agreement containing the established milestones, repayment terms, reporting requirements, and all other detailed terms and conditions, required by the MSF.

If the Company is interested in the MEDC pursuing a recommendation to the MSF for a possible MBDP Incentive Award for the Company along the above parameters, please sign and date this Term Sheet. If the MEDC does not receive the signed Term Sheet from the Company by March 12, 2013, the MEDC may not be able to proceed with any recommendation to the MSF.

Detroit Thermal Systems, LLC

By: Nancy Colan


Printed Name: Nancy Colan

Its: CFO

Dated: 3-14-13

Acknowledged as received by:

Michigan Economic Development Corporation

By: 

Printed Name: Marcia Gebrowski

Its: DFM

Dated: 3/14/13