



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: October 14, 2008

TO: Michigan Economic Growth Authority

FROM: Val Hoag, Director
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WTH

Greg West, Project Specialist
Business Development and Attraction

SUBJECT: Briefing Memo – Hagerty Insurance Agency, Inc.
Rural MEGA Credit

River's Edge Redevelopment Project
Brownfield Work Plan Amendment

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COMPANY NAME:

Hagerty Insurance
141 River's Edge Dr, Suite 200
Traverse City, Michigan 49684

HISTORY OF COMPANY:

Headquartered in Traverse City, Michigan, Hagerty Insurance Agency, Inc. started out as a general lines insurance agency 40 years ago. They saw a need for specialty insurance and in 1984 launched a revolutionary Agreed Value policy for classic boat owners. In 1991, Hagerty launched specialty insurance for collector car owners, and today, they are the leading insurance agency for collector cars and boats in the United States. In less than 25 years, Hagerty has grown from a small agency headquartered in the Hagerty family basement to the leading provider of collector car and boat insurance in the United States. They currently have 358 employees in Michigan.

PROJECT DESCRIPTION:

The proposed project includes the construction of an additional building and parking structure adjacent to Hagerty's current Grand Traverse County location in downtown Traverse City in order to continue its growth within the collector car and boat insurance industry throughout the world. The additional occupancy space and parking available would allow Hagerty to expand its workforce in connection with its auto and marine insurance business throughout the United States and other countries. Hagerty currently issues policies to customers in the 48 continental states, Washington DC and the United Kingdom and they are projecting the need for 226 additional employees, an increase of 64%, over the next 5 years.

If they are able to expand at their current location, Traverse City will continue to serve as the home of their corporate offices providing underwriting, insurance services and administrative support for expanded operations around the world. Additionally, retaining a majority of the employees in one location will mean that this location will serve as the hub for their sales agents who

travel the country attending classic car and boat events bringing new customers to Hagerty.

Total company investment over five years will be approximately \$7.7 million. This project will create 226 new jobs with an average weekly wage of \$835. The company will also offer health care benefits and pay a portion of the benefit costs.

BENEFITS 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 create a total of 386 jobs in the state by the year 2015. We also estimate that the project would create total state government revenues through the year 2015, net of MEGA cost and adjusted for inflation, of \$4.8 million (2008 dollars) due to the creation of these new jobs.

BUSINESS CASE:

Alternatively, the company considered locating the project in Phoenix, AZ. Locating additional staff in Michigan will cause them to spend additional dollars on travel in order to commute to various shows and events around the country, costs that would be mitigated if they located this expansion in Phoenix. A presence in the Western United States would allow Hagerty to no longer have to staff a Michigan call center from 5pm to 8pm eastern time, eliminating a significant additional premium employment cost required to staff a late Michigan shift.

In addition, workforce costs in Michigan are higher and will potentially slow Hagerty's growth. The shortage of qualified candidates within their current geographic area increases the cost of recruiting and hiring. According to their research, including the US Census Bureau web site, wages in Arizona are approximately 3% less than wages in Michigan. Along with lower wages, the unemployment tax laws are more favorable, taxing the first \$7,000 of wages compared to the first \$9,000 in Michigan at equal or lower rates.

WORK PLAN AMENDMENT REQUEST:

The Grand Traverse County Brownfield Redevelopment Authority is requesting an amendment to the River's Edge Development work plan to request additional public infrastructure improvements and to increase the amount of local and school tax capture to \$6,257,149. The original work plan was approved by the MEGA Board on May 15, 2001. The amendment request would add additional public infrastructure that directly benefits the River's Edge development and specifically will be the construction of a publicly owned parking structure which can be used by employees of Haggerty Insurance. The work plan request is for the approval of an additional \$2,742,136 in local and school tax capture, making the total overall request \$6,257,149.

The total costs for the new parking deck are expected to be \$10.5 million.

COST OF MEGA ELIGIBLE ACTIVITIES:

	<u>Original Approval</u>	<u>Amended Project</u>
Demolition	\$ 32,000	\$ 21,800
Infrastructure Improvements	1,383,500	4,398,773
Site Preparation	+ 1,555,000	+ 1,315,370
Sub-Total	\$ 2,970,000	\$ 5,735,943
Contingency	448,725	518,100
Admin. and Review Costs	+ 95,788	+ 3,106
TOTAL	\$ 3,515,013	\$ 6,257,149

A total of \$1,230,960 is unallocated monies from the original work plan approval which has been applied to the amended request.

TAX CAPTURE BREAKDOWN:

For the non-homestead property, there are 26.8993 mills available for capture, with school millage equaling 24 mills (89%) and local millage equaling 2.8993 mills (11%). For the homestead property there are 8.8993 mills available, with school millage equaling 6 mills (67%) and local millage equaling 2.8993 mills (33%).

Although the project seeks reimbursement for a maximum of \$6,257,149 for MEGA Eligible Activities, current tax capture projections indicate that only \$6,027,280 in state and local tax increment revenue will be generated throughout the 19-year duration. However, tax capture projections could vary based on changes in the increment value. The recommended tax capture breaks down as follows:

HOMESTEAD

School tax capture (67%)	\$ 528,168
Local tax capture (33%)	\$ 255,232

NON-HOMESTEAD

School tax capture (89%)	\$ 4,883,679
Local tax capture (11%)	\$ 590,070

TOTAL

School tax capture (86.5%)	\$ 5,411,808
Local tax capture (13.5%)	<u>\$ 845,341</u>
TOTAL	\$ 6,257,149

OTHER STATE AND LOCAL ASSISTANCE:

Grand Traverse County supports the Hagerty Insurance Agency, Inc./River's Edge Redevelopment project and is allocating \$1,000,000 from the County Brownfield Site Remediation Fund.

In addition the Traverse City Downtown Development Authority is allocating approximately \$5.86 million toward the construction of the public parking deck for this project.

The MEDC has also approved training funds for the project. Through our Economic Development Job Training program, the MEDC will provide an employee training grant of up to \$1,000 per job for up to \$150,000.

RECOMMENDATION:

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent Rural employment tax credit for seven years, for up to 226 net new employees.

The Brownfield Redevelopment staff recommends approval of local and school tax capture for the eligible activities totaling a maximum of \$6,257,149, as described above. Utilizing the current state to local capture ratio, the amount of school tax capture for this project is estimated at a maximum of \$5,411,808.