



MEMORANDUM

TO: Michigan Strategic Fund (“MSF”) Board Members

FROM: Mike Gietzen, Development Finance Manager

DATE : March 27, 2013

SUBJE/CT: Approval of Michigan Business Development Request for \$4,000,000
Performance-based Loan to:

Southwest Michigan First Corporation (“Applicant” or “Company”)
241 East Michigan Avenue
Kalamazoo, Michigan 49007
www.southwestmichiganfirst.com

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 Project Management 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

Southwest Michigan First Corporation (Southwest Michigan First) was created for one singular purpose to assist companies in growing jobs. They believe in well-paying jobs that make a positive impact for generations to come. Their community’s future depends on local companies’ ability to grow, be competitive and change with the times. Southwest Michigan First Corporation, a 501(c)3 not-for-profit corporation was founded for the mission of relieving the cost of government and poverty through the creation of jobs Southwest Michigan. Incorporated as a 501(c)3 in 1988 under the name “CEO Council, Inc.”, the organization has gone through various structural and name changes, none of which compromised its not-for-profit status or the original mission.

Michigan Economic Development Corporation

300 North Washington Square | Lansing, MI 48913 | 888.522.0103 | MichiganAdvantage.org | michigan.org

PROJECT DESCRIPTION

Southwest Michigan First Corporation is requesting financing assistance for Project Seal through the Michigan Business Development Program. The project will be the development of a consolidated new product design and testing facility, staffed by approximately 100 professionals dedicated to world-class creative design. Presently the business associated to Project Seal has design and test facilities in Illinois, Virginia, Massachusetts, Georgia, North Carolina and California. Within three years of implementing the project, the business associated to Project Seal expects to relocate to a 35,000 sq. ft. facility to house these professionals.

Southwest Michigan First Corporation would offer a design build lease option at Western Michigan University's Business, Technology and Research Park, with free land for the development. Southwest Michigan First proposes to provide the facility at no-cost for the first 5 years of occupancy. During this time, the business associated to Project Seal would be responsible for triple net (NNN) expenses, building upkeep and maintenance. At the end of 5 years, the business associated to Project Seal would have the option to purchase the building at cost, or lease it at market rate.

The Applicant plans to construct the facility in Kalamazoo for Project Seal and would utilize the BDP Performance-based Loan to fund the construction and 5 year term while the facility is not generating any revenue.

- a) The Applicant is a "Qualified Business", as defined in MCL 125.2088r(9)(b), that is located and operates in Michigan.
- b) The project will be located in Kalamazoo, Kalamazoo County. Kalamazoo County has offered a financial commitment to the project" in the form of an economic development allocation to the Applicant of \$75,000 annually. The Applicant will funnel a portion of this allocation to Project Seal. The annual allocation is to be used at the discretion of Southwest Michigan First for any economic development need.
- c) The Applicant has demonstrated a need for the funding based on its ability to finance the construction of a new building which is required from the business associated to Project Seal. Due to the lack of revenue being produced by the facility through lease costs, traditional financing is unavailable. Once the facility is collecting lease costs or sold, estimated to be October 2018, the BDP Loan will be paid off.
- d) The Applicant is applying for the BDP Loan based on investment and only indirect jobs will be created. There will not be any job requirements as part of this agreement.
- e) The project meets the program guidelines as follows: project involves out-of-state competition; has a net positive return to Michigan; and has indirect job creation by Project Seal that is anticipated to occur starting in 2013.

INCENTIVE OPPORTUNITY

This project involves a capital investment of up to \$4,000,000 in the City of Kalamazoo. The requested incentive amount from the MSF is \$4,000,000 performance-based loan, with interest only payments through March 2018 and principal and additional interest and fees due by October 31, 2018. 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 term sheet attached to the proposed Resolution (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.

The MSF Incentives Subcommittee has indicated its support of the Recommendation.