

**MICHIGAN STRATEGIC FUND
APPROVED MEETING MINUTES
JULY 28, 2015**

Members Present

Steve Arwood
Larry Koops
Andrew Lockwood (on behalf of Treasurer Khouri)
Terri Jo Umlor
Shaun Wilson
Wayne Wood
Mike Zimmer

Members Absent

Paul Anderson
Dan Boge
Jody DePree Vanderwel

Mr. Arwood called the meeting to order at 10:00 am.

Public Comment: Mr. Arwood asked if any members of the audience wished to address the Board. No members of the public wished to comment.

Communications: Andrea Robach, Fund Administrator, notified the Board that both agenda items under section E. State Branding required further due diligence, and would not be presented at this meeting.

Mr. Arwood noted the Chef Compliance Officer's quarterly report was provided in the packet, and asked if there were any questions or comments from either the Board or the CCO.

Mr. Arwood also introduced and welcomed new MSF Board member Wayne Wood.

A. CONSENT AGENDA

Resolutions 2015-85 through 2015-91

Mr. Arwood asked if there were any questions from the Board regarding the items under the Consent Agenda. There being none, Larry Koops motioned for approval of the following:

Proposed Meeting Minutes – June 23, 2015
Dieomatic (dba Cosma Casting Michigan) – MBDP Amendment **2015-086**
MPI Research – MSF Designated Renaissance Zone Revocation **2015-087**
Dumbarton Tool, Inc. – Tool & Die Zone Revocation **2015-088**
Outfield Partners, LLC – MCRP Amendment **2015-089**
Amendment to MOU – MSF/MEDC **2015-090**
Amendment to Financial Officer Appointment **2015-091**

B. ADMINISTRATIVE

Resolution 2015-092 Rigaku Innovative Technologies, Inc. – MBDP Grant Termination

Christin Armstrong, Compliance Director, provided the Board with information regarding this action item. On March 8, 2013, the MSF Board approved a \$2,000,000 award to the Company under the MBDP. The Company proposed to expand its current operations in order to begin supplying the semi-conductor

industry with optical products in the City of Auburn Hills which would result in the creation of 25 Qualified New Jobs and up to \$55.7 million in capital investment. The City of Auburn Hills provided a PA 198 tax abatement.

The Company's progress report submitted on October 10, 2014 indicated that the Company had not maintained its Base Employment Level (the "Event of Default"). The Company acknowledges that it must repay the grant funds and has requested that the MSF allow it to repay the grant over time.

Staff Recommendation

MEDC Staff recommends that the MSF Board authorize the MSF Fund Manager to negotiate and finalize a payment plan that would allow the Company to repay the MBDP Grant funds over time, as detailed in the resolution.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. There being none, Larry Koops motioned for the approval of Resolution 2015-092. Mike Zimmer seconded the motion. **The motion carried: 7 ayes; 0 nays; 0 recused.**

C. BUSINESS INVESTMENT

Business Growth

Resolution 2015-093 Procurement Technical Assistance Center – Request to Issue RFP

Dustin Frigy, Michigan Defense Operations Manager, and Sean Carlson, Vice President, Michigan Defense Center and International Trade, provided the Board with information on this action item.

The MEDC is seeking to identify local PTAC host organizations to provide Procurement Technical Assistance services for Michigan businesses that will assist in successfully winning federal contracts, with a strong emphasis on United States Departments of Defense (DoD) and Homeland Security (DHS) contracts, as well as state and local contracts to a lesser extent.

The Department of Defense's Procurement Technical Assistance Center (PTAC) Program was established by Congress in 1985 to help create jobs and to improve the local economy by assisting business firms in obtaining and performing under federal, state, and local government contracts. The U.S. Defense Logistics Agency (DLA), the MDC/MEDC, and local economic partners fund Michigan PTACs. There are 11 regional PTAC offices to help Michigan companies to successfully secure, perform and retain defense and other government contracts.

In an effort to implement best practices across MEDC, requests for future state funding for PTACs will need to be awarded through the RFP process. This approach will assist in determining the appropriate distribution of limited funding to programs that best address Economic Development needs and provide the greatest return on investment.

Staff Recommendation

MEDC Staff recommends that the MSF Board approve the proposed RFP process to identify and fund qualified PTAC Programs with host organizations that submit responses to the opportunity.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. Discussion ensued regarding the typical use of awarded funding. Mr. Arwood asked that the Board be periodically updated as the process moved forward. There being no further questions, Larry Koops motioned for the approval of Resolution 2015-093. Shaun Wilson seconded the motion. **The motion carried: 7 ayes; 0 nays; 0 recused.**

Resolution 2015-094 - International Trade Program – STEP Eligibility Amendment

Deanna Richeson and Dominic Romano of the International Trade Programs team provided the Board with information regarding this action item. The Michigan Economic Development Corporation (MEDC) Staff requests the MSF Board approve a pilot program allowing exceptions to the STEP eligibility criteria for companies who show great export sales promise but due to extenuating circumstances do not meet the established criteria. This would apply only to the FY2015 State-funded STEP grants and not the Federally-funded portion, which is bound by the Small Business Administration (SBA) criteria. The pilot is a cautiously bold approach to grow Michigan's export sales. The FY2014 STEP ROI funds to export sales reported by STEP recipients was 78:1. If the pilot results in a healthy return on investment (ROI), a recommendation will be made to continue the pilot in FY2016.

Staff Recommendation

MEDC Staff recommends that the MSF Board ratify and approve the exception of eligibility guidelines for State-funded STEP Program grants. In accordance with the above information, MEDC staff seeks permission from the MSF to suspend eligibility guidelines to assist well-positioned exporting companies who do not meet all the established criteria. MEDC Staff also recommends that the MSF Board reaffirms the delegation of authority to determine and make certain STEP Program awards.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. Discussion ensued pertaining to the program's success, as well as how the program is measured. There being no further questions, Larry Koops motioned for the approval of Resolution 2015-094. Terri Jo Umlor seconded the motion. The motion carried: 7 ayes; 0 nays; 0 recused.

Resolution 2015-095 – YFS Automotive Systems – MBDP Grant

Marcia Gebarowski, Development Finance Manager, provided the Board with information regarding this action item. This is a request from the Company for a \$1.3 million Performance-based grant. This project involves the creation of 162 Qualified New Jobs, and a capital investment of up to \$26.9 million in the City of Detroit, Wayne County. The Company is a tier-one supplier of fuel tanks and urea systems for all automotive OEMs. The Company was established in 1997 as ABC Group Fuel Systems, Inc. with a manufacturing facility in Gallatin, TN. The Company was purchased by the YFS Group in 2014, a Chinese-owned automotive supplier.

The Company plans to acquire approximately 30 acres of vacant industrial property, to construct a 100,000 square foot manufacturing facility in the City of Detroit, make investments and create jobs related to the manufacturing of automotive components. This project will be their second manufacturing location in the U.S. The Company evaluated locations in Ohio and Michigan for a new manufacturing operation. State and local incentives are needed to attract this new investment in Michigan, as well as help offset the higher costs the Company will have for the first five years until the new operation is fully ramped up.

Staff Recommendation

MEDC Staff recommends approval of the MBDP proposal, as detailed in the resolution and terms sheet.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. There being none, Mike Zimmer motioned for the approval of Resolution 2015-095. Larry Koops seconded the motion. **The motion carried: 7 ayes; 0 nays; 0 recused.**

Resolution 2015-096 - Magna Exterior and Interiors, USA – MBDP Amendment

Mike Gietzen, Development Finance Manager, provided the Board with information regarding this action item. The amendment request is to restructure Michigan Business Development Program to the Applicant, which was a \$1,329,000 Performance-based grant for the project that involved the creation of 443 Qualified New Jobs, and a capital investment of up to \$3,639,100 located in China Township and Benzonia Township. The amendment will reduce the grant amount from \$1,329,000 to \$822,000, modify milestone two from a disbursement milestone to a performance only milestone, and establish July 28, 2015 as the end date for the term of the agreement.

On July 22, 2014 Michigan Strategic Fund approved an amendment to increase the size of the project to the creation of 443 Qualified New Jobs which increased the performance based grant to \$1,329,000 related to new customer contracts. On March 4, 2015 the Applicant submitted the Milestone Two application for a disbursement, and informed MEDC staff that Magna International, Inc. has agreed to sell its worldwide interiors operations to Grupo Antolin, a Spanish supplier with global operations. MEDC staff has not released the disbursement of milestone two due to this asset purchase from Grupo Antolin.

Staff Recommendation

MEDC Staff recommends: change Milestone Two from a disbursement milestone to a performance milestone only with no disbursement; Reduce the total grant from \$1,329,000 to \$822,000; Establish July 28, 2015 as the end date for the term of the grant agreement. All other aspects of the approval remain unchanged.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. Discussion ensued pertaining to how deals are structured to protect the MSF grant funding in the event a merger does not prove to be successful for the applicants. There being no further questions, Larry Koops motioned for the approval of Resolution 2015-096. Shaun Wilson seconded the motion. **The motion carried: 7 ayes; 0 nays; 0 recused.**

Resolution 2015-097 – Townsend Energy Solutions – BTC Amendment & MEGA Termination

Josh Hundt, Development Finance Director, provided the Board with information regarding this action item. This is a request to (i) amend the Company's Battery and Battery Related Manufacturing Tax Credit, (ii) reduce the maximum amount of the Battery and Battery Related Manufacturing Tax Credit by \$20 million, and (iii) terminate the Company's High-Technology MEGA Tax Credit, which is expected to result in an estimated savings of \$6.3 million in estimated tax credit liability for the State of Michigan. The total anticipated savings in estimated tax credit liability for the State of Michigan as a result of these modifications is \$26.3 million.

Townsend Energy Solutions, LLC, through its subsidiary business Energy Power Systems, LLC ("EPS"), is focused on the development and production of advanced lead acid battery technologies to serve the needs of the transportation and grid storage markets. On December 13, 2011 the Michigan Economic Growth Authority Board approved a High-technology MEGA Tax Credit, and on April 17, 2012 the Michigan Economic Growth Authority Board approved a Battery and Battery Related Manufacturing Credit for the Company.

EPS has selected the Centerpoint Campus building in Pontiac for their large-scale production facility, which is part of the RACER Trust portfolio. EPS has a planned start of production date of Q3 2016. EPS estimates that up to 300 employees will be needed for the first phase of production, and plans to have 750 employees and invest over \$200 million in Michigan by 2020. Amending the existing Battery and Battery Related Tax Credit is mutually beneficial to the company and the State of Michigan by supporting the company expansion, as well as reducing the outstanding liability of the State.

Staff Recommendation

MEDC Staff recommends the following:

- a) Amend the Battery and Battery Related Manufacturing Credit Agreement by changing the project location from the City of Wixom, Oakland County to the City of Pontiac, Oakland County, and add language to the section that additional sites may be added in the future at the discretion of the MSF Board.
- b) Amend the Battery Related Manufacturing Credit Agreement to allow investment incurred at the Company's location in the City of Troy to be claimed as Capital Investment.
- c) Require the Company or one of its related entities to establish a program or partnership that benefits Pontiac school students.
- d) Amend the Battery and Battery Related Manufacturing Credit Agreement to move the start date for Capital Investment from January 1, 2012 to July 1, 2011.
- e) Remove the requirement in the Battery and Battery Related Manufacturing Credit Agreement that the project has to be located in a Renaissance Zone established under Section 8A of the Michigan Renaissance Zone Act.
- f) Terminate the Company's High-Technology MEGA Tax Credit (#776) that was approved by the Michigan Economic Growth Authority December 13, 2011.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. Discussion ensued pertaining to the substantial savings to the State of Michigan. Mr. Arwood noted his appreciation for the company's patience and commitment to the City of Pontiac. There being no further questions, Larry Koops motioned for the approval of Resolution 2015-097. Andrew Lockwood seconded the motion. **The motion carried: 7 ayes; 0 nays; 0 recused.**

Access to Capital

Resolution 2015-098 – Technical Training, Inc. – MSDF Collateral Support

Chris Cook, Capital Programs Director, provided the Board with information regarding this action item. Technical Training, Inc. ("TTI" or "Company") is a global provider of training materials, research applications, consulting and staffing solutions. The Company is headquartered in Rochester Hills and services customers located throughout the world. Given the large amount of work performed for customers located outside of the US, TTI carries a high concentration of foreign A/R. This foreign A/R limits the ability of TTI to access working capital through conventional financing structures. FirstMerit Bank ("Bank") is proposing a new \$10 million working capital line of credit that would replace the line that TTI has in place with another lender. The proposed line to be provided by the Bank would provide TTI access to working capital on both its domestic and foreign A/R. The Bank is requesting that the MSF provide collateral of up to \$4.99 million in support of the line of credit.

The Company anticipates adding 100 employees within 6 months of loan closing, with 86 of those jobs being located in Michigan. The Company anticipates an additional 150 jobs within 2 years of loan closing, with 100 of jobs to be located in Michigan. The average annual salary for employees of TTI is \$60,000.

Staff Recommendation

MEDC Staff recommends Approval of the MSDF-CSP proposal as outlined in the resolution and accompanying documents.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. Discussion ensued pertaining to the substantial employment commitment, as well as the annual portfolio review. There being no further questions, Wayne Wood motioned for the approval of Resolution 2015-098. Larry Koops seconded the motion. **The motion carried: 7 ayes; 0 nays; 0 recused.**

D. COMMUNITY VITALITY

Resolution 2015-099 Trailhead RO, LLC – MCRP

Stacy Esbrook, Community Assistance Team, provided the Board with information regarding this action item. Trailhead RO, LLC (“Applicant” or “Borrower”) and Fifth Third Bank (“Lender”) are requesting approval of a Michigan Community Revitalization Program award in the amount of \$4,500,000 in the form of a Loan Participation under Other Economic Assistance. The Project will create a mixed-use development with the goal of generating a dynamic and long-term asset to the community by reactivating property that is currently the site of a used car dealership that has been vacant since 2008 becoming an eyesore and drag on the community. Due to the mixed use nature of the project, additional financial burdens have been created for the developer compared to a stand-alone project of one or two uses. The financial gap that creates the need for the Michigan Community Revitalization Program support is primarily driven by the cost of construction due to high-rise construction used to fit all uses on the site and the cost of building a parking structure to support the development.

The Applicant anticipates that the project could result in eligible investment of \$41 Million and total capital investment in the amount of \$48 million in the city of Royal Oak and the creation of 144 FTE jobs. It is anticipated that the taxable value of the property will increase over \$12 million upon completion.

Staff Recommendation

MEDC staff recommends approval of a MCRP performance-based loan in the amount of \$4,500,000 for Trailhead RO, LLC.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. Discussion ensued pertaining to the site location, as well as the importance to the City that the project meets their goals for increasing density and walkability; there had been previously proposed redevelopments of the site that the City did not support. There being no further questions, Larry Koops motioned for the approval of Resolution 2015-099. Shaun Wilson seconded the motion. **The motion carried: & ayes; 0 nays; 0 recused.**

Resolutions 2015-100 & 101 – Albion Hotel – MCRP & Act 381 Work Plan Approval

Rosalyn Jones, Community Assistance Team, provided the Board with information regarding these action items. Downtown Albion Hotel, LLC (Applicant) is requesting approval of a performance-based grant in the amount of \$1,000,000. The Applicant anticipates that the project will result in eligible investment of \$7,033,555 and total capital investment in the amount of \$8,428,136 in the City of Albion, the creation of 20 jobs, with an average hourly wage of \$16.82, and increase the taxable value of the property by over \$2.8 million. Additionally, the City of Albion Brownfield Redevelopment Authority has submitted an Act 381 work plan (hereinafter work plan) request for the approval of local and school tax capture for eligible activities in the amount of \$963,416.

The Applicant plans to demolish existing structures and construct a new 67,000 square foot, four story boutique hotel and conference center. The project will encompass nearly an entire city block and redevelop approximately 1.25 acres of property located on 13 parcels in downtown Albion. The 72 room hotel will offer a mix of standard rooms and extended stay suites. Approximately 3,000 square feet will

be available for meetings, conferences, weddings, banquets, and community events. The Downtown Albion Hotel project is considered to be a catalytic project transforming a vacant, blighted property located in the heart of downtown Albion into the only traditional hotel in the area.

Staff Recommendation

MEDC Staff recommends approval of a MCRP performance-based grant in the amount of \$1,000,000 for Downtown Albion Hotel, LLC, as well as the approval local and school tax capture for the Act 381 eligible activities totaling \$963,416. Utilizing the current state to local capture ratio, the amount of school tax capture for this project is estimated at \$375,154.

Board Discussion

Mr. Arwood asked if there were any questions from the Board. Discussion ensued pertaining to the importance of the project to the City, and the support committed by Albion College. There being no further questions, Shaun Wilson motioned for the approval of Resolutions 2015-100 & 2015-101. Andrew Lockwood seconded the motion. **The motion carried: 7 ayes; 0 nays; 0 recused.**

Mr. Arwood noted the final agenda item was Quarterly Reports provided to the Board, and that this was purely informational, with no required action. The meeting was adjourned at 11:05 pm.