

MICHIGAN STRATEGIC FUND BOARD
May 26, 2010

ADOPTED MEETING MINUTES

A meeting of the Michigan Strategic Fund (MSF) Board was held on Wednesday, May 26, 2010 at the MEDC building, Lake Michigan Room, 300 N. Washington Sq., Lansing, Michigan.

MEMBERS PRESENT: Rita Canady (acting on behalf of Stanley “Skip” Pruss, authorization attached); Robert Kleine; James Herbert; Paul E. Hodges, III (via telephone); George Jackson; Greg Main; Richard Rassel; Charlie Rothstein

MEMBERS ABSENT: Linda Ewing; Mitch Mondry; James Petcoff

CALL TO ORDER: Mr. Main called the meeting to order at 1:33 p.m.

APPROVAL OF MINUTES: Mr. Main asked for a motion to approve the April 28, 2010 meeting minutes. **Mr. Rothstein motioned approval of the minutes. Mr. Rassel seconded the motion.** The motion carried unanimously – 7 ayes; 0 nays; 0 recused; 4 absent

PUBLIC COMMENT: There was no public comment.

COMMUNICATION ITEMS: Nathan Ohle, MEDC Board Relations Liaison, advised the Board that he had received a recusal letter from Richard Rassel for items on the agenda. Mr. Ohle indicated that Agenda Item G3, a CDBG project for the City of Scottville, had been removed from the agenda.

[RECUSED: Richard Rassel]

21st CENTURY JOBS FUND:

Resolution 2010-077: Clifford Development, LLC Loan Modification

Carsten Hohnke, MEDC Sector Portfolio Manager provided information about the action.

Mr. Hohnke indicated that Clifford Development had received 2006 21st Century Jobs Fund competition award to accelerate the commercialization of engines for the aerospace industry. Clifford has been able to meet their milestones to this date, other than an 11 month delay in approval of receiving FAA approval for their Supplemental Type Certifications. Mr. Hohnke indicated that the market for these engines has been slow due to the tough financial markets, and the inability of customers to secure financing for the types of retrofitting Clifford specializes in. Mr. Hohnke indicated that due to the downturn in business, Clifford has requested an extension on the loan.

Mr. Rothstein asked if the cash flow recapture clause discussed by the subcommittee was now included. Mr. Hohnke responded that it was.

Recommendation: MEDC Staff recommends that the MSF approve amending the loan documents with Clifford to effectuate an extension to the grace period and new payment schedule, with terms and conditions that shall include: (a) increasing the interest rate under the Note from 8.25% to 10.25%; (b) extending the grace period ending date under the Note from February 12, 2010 to February 11, 2011; (c) on February 11, 2011, restating all accrued and unpaid interest on the Note and adding it to the outstanding principal; (d) requiring interest only payments on the Note from March 1, 2011 through February 1, 2012; (e) requiring Note payments in equal installments of principal and interest to begin on March 1, 2012 and continuing for the following 35 months; (f) in addition to the payments required in (e), requiring terms and conditions for additional payments to reduce principal on the Note in the event that Clifford generates excess cash flow prior

to the above March 1, 2012 amortization period; and (g) in consideration of the above restructure terms, requiring Clifford to effectuate the grant of 100 Profit Interest Units of Clifford to the MSF.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Herbert made a motion for approval of Resolution 2010-077. Mr. Rothstein seconded the motion.** The motion carried unanimously – 7 ayes; 0 nays; 0 recused; 4 absent.

[George Jackson Arrives]

Resolution 2010-078: Compendia Bioscience, Inc. Conversion Request

Carsten Hohnke provided information about the action.

Mr. Hohnke indicated that Compendia Bioscience received both a 2006 and 2008 21st Century Jobs Fund competition loan to integrate and unify oncology data so that information can be rapidly accessed online. Mr. Hohnke indicated that Compendia reported that it has reached a conversion milestone from the 2008 loan.

Mr. Herbert indicated that staff had done a lot of work on this project, and should be commended for getting such a favorable deal for the tax payers.

Recommendation: Subject to Compendia providing evidence satisfactory to the MEDC that it has completed its conversion to a C corporation, MEDC Staff recommends that the MSF approve finalization of MSF debt conversion and amendment documents to: 1. Convert the outstanding P&I balances (as of the date of conversion) of the 2006 Loan and 2008 Loan into Class B Common Shares at \$5.09 per share (to include the call option noted below, and the amendment of the 2008 Loan noted below) (“First Conversion”); 2. Amend the 2008 Loan as necessary to allow all remaining future principal disbursements to the Compendia to be immediately converted into Class B Common Shares at \$5.09 per share; and 3. Provide a call option for Compendia to buy back from the MSF all Class B Common Shares owned by the MSF at the price of \$15.27 per share through 36 months from the date of the First Conversion.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Kleine made a motion for approval of Resolution 2010-078. Mr. Jackson seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-079: Lakeshore Advantage Bio-Economy Institute Investment

Carsten Hohnke provided information about the action.

Mr. Hohnke indicated that the MSF Board had approved additional funding for the Lakeshore Advantage Bio-Economy Institute at the April 2010 meeting, but failed to extend the term of the grant at that time.

Recommendation: MEDC Staff recommends that the MSF Board amend the grant to Lakeshore Advantage by extending the ending date from September 30, 2009 to September 30, 2011.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Kleine made a motion for approval of Resolution 2010-079. Mr. Russel seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Portfolio Update

Ned Staebler, MEDC VP of Business Acceleration and Capital Markets gave a presentation on the 21st Century Jobs Fund investments and the results of those investments to date.

Mr. Rothstein indicated that it was a great report, and that staff should continue to push the good news from this program out to the media and other outlets. Mr. Russel indicated that targeting Op-Eds with the major newspapers in the State would be beneficial in getting the story out to the public.

Mr. Kleine asked what lessons staff had learned from these programs. Mr. Staebler responded that staff would make more of an effort to act like a private investor, and that staff continues to push for more stringent terms on investments. Mr. Main indicated that staff continues to make refinements in the process and that you can see the concerted effort to move out along the commercialization portion of the programs over the past several years to get more jobs created and better investments that return to the State.

PRIVATE ACTIVITY BONDS – ISSUING:

[RECUSED: Richard Rassel]

Resolution 2010-080: International Master Products Corporation (Montague, Muskegon County) - \$4,700,000 New/Manufacturing

Diane Cranmer provided information for the action item.

Ms. Cranmer indicated that the project includes financing the construction and equipment of an approximately 24,000 square foot addition and expansion to IMP's existing facility and the acquisition and installation of machinery and equipment consisting of a printing press and a CTP unit at IMP's facility, and would create approximately 10-15 jobs as a result of this project.

Recommendation: Based upon a determination by Butzel Long and the State of Michigan Attorney General's Office that the project meets state and federal law requirements for this financing, staff recommends the adoption of the Bond Authorizing Resolution in the amount NTE \$4,700,000.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Kleine made a motion for approval of Resolution 2010-080. Mr. Rothstein seconded the motion.** Trace Cooley, MEDC Legal Assistant, took a Roll-Call Vote.

Roll Call: **Ayes:** Rita Canady; James Herbert; Paul E. Hodges, III; George Jackson; Robert Kleine; Greg Main; Charles Rothstein
 Nays: None
 Recused: Richard Rassel
 Absent: None

The motion carried unanimously – 7 ayes; 0 nays; 1 recused; 3 absent.

[RETURNS: Richard Rassel]

Resolution 2010-081: Continental Dairy Products, Inc. and CS Facilities, LLC (Coopersville, Ottawa County) - \$31,045,000 New/Non-Profit/Recovery Zone Facility Bond

Diane Cranmer provided information for the action item.

Ms. Cranmer indicated that this project includes financing the conversion of the former Delphi automotive part manufacturing plant into a milk processing facility, and that approximately 70 new jobs are expected to be created as a result of this project.

Recommendation: Based upon a determination by Dickinson Wright, LLC and the State of Michigan Attorney General's Office that the Recovery Zone Facility Bond meets state and federal law requirements for this financing, staff recommends the adoption of the Bond Authorizing Resolution in the amount NTE \$31,045,000.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Jackson made a motion for approval of Resolution 2010-081. Mr. Rothstein seconded the motion.** Trace Cooley, MEDC Legal Assistant, took a Roll-Call Vote.

Roll Call: **Ayes:** Rita Canady; James Herbert; Paul E. Hodges, III; George Jackson; Robert Kleine; Greg Main; Richard Rassel; Charles Rothstein

Nays: None
Recused: None
Absent: None

The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

PRIVATE ACTIVITY BONDS – AMENDMENT:

[**RECUSED:** Richard Rassel]

Resolution 2010-082: St. Catherine of Siena Academy (Wixom, Oakland County) \$36,000,000 – New Financing/Non-Profit

Diane Cranmer provided information for the action item.

Ms. Cranmer indicated that the MSF Board approved this project at the April 2010 meeting. Ms. Cranmer indicated that an extension of the expiration date of the resolution to July 30, 2010 was needed to allow the newly formed Michigan Finance Authority to meet and approve a resolution to ratify the project for issuance by the Michigan Finance Authority.

Recommendation: Based upon a determination by Butzel Long and the State of Michigan Attorney General's Office that the project meets state and federal law requirements for this financing, staff recommends the adoption of the extension to the current Bond Authorizing Resolution in the amount NTE \$36,000,000.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Kleine made a motion for approval of Resolution 2010-082. Mr. Jackson seconded the motion.** Trace Cooley, MEDC Legal Assistant, took a Roll-Call Vote.

Roll Call: **Ayes:** Rita Canady; James Herbert; Paul E. Hodges, III; George Jackson; Robert Kleine; Greg Main; Charles Rothstein
 Nays: None
 Recused: Richard Rassel
 Absent: None

The motion carried unanimously – 7 ayes; 0 nays; 1 recused; 3 absent.

[**RETURNS:** Richard Rassel]

RENAISSANCE ZONES:

Resolution 2010-083: New Agricultural Processing Renaissance Zone – Holland Charter Township, Ottawa County – Request Foods, Inc.

Karla Campbell, MEDC Manager MEGA Program, provided information for the action item and introduced guest presenters: Wiliam Rysdyk, CFO, Request Foods; Connie Knap, Controller, Request Foods; Mark Knudsen, Ottawa County; Kurt Brauer, Warner Norcross & Judd; and Mike DiBernardo, MI Department of Agriculture.

Mr. Rysdyk indicated that this project will include a new facility to keep pace with increased production demands and growth in the company's customer base. Mr. Rysdyk indicated that the company anticipated creating 250 new jobs as a result of this project, and planned to invest \$35.2 million in the facility. Mr. Knudsen indicated that agriculture is a very important industry in Ottawa County, and that this project will help to jump start their economy.

Mr. Rothstein asked who owns Request Foods. Mr. Rysdyk indicated that it is a privately owned family business for over 20 years. Mr. Rothstein asked what the company's revenue looks like. Mr. Rysdyk indicated that Request Foods has a total revenue of over \$250 million, and that it is profitable.

Mr. Kleine asked who was the largest customer of the company. Mr. Ryskyk indicated that Campbell Soup is the largest company, but that they also had many grocery stores in Michigan as customers.

Mr. Rothstein asked how many Agricultural Renaissance Zones will be left to be designated after this project. Ms. Campbell indicated that there were six additional Agricultural Renaissance Zones available after this project.

Recommendation: MEDC staff recommends the MSF approval of the County of Ottawa's request for an Agricultural Processing Renaissance Zone for Request Foods, Inc., for a 15 year designation. The property parcel number is 70-16-08-200-050, contingent upon the following: (i) By July 6, 2011, Request Foods, Inc. shall have commenced the project outlined in Ottawa County's application for an Agricultural Processing Renaissance Zone by having started construction of the new facility; and (ii) A development agreement is finalized by December 31, 2010 between the Michigan Strategic Fund, Request Foods, Inc., and Grandquest Realty, LLC.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Rothstein made a motion for approval of Resolution 2010-083. Mr. Kleine seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-084: New MSF Designated Renaissance Zone – City of Romulus, Wayne County – A123 Systems, Inc.

Karla Campbell provided information for the action item and introduced guest presenters: Les Alexander, General Manager, A123 Systems Government Solutions Group; Richard Barr, General Counsel, A123; and Jim Paquet, Wayne County.

Mr. Alexander indicated that this project will encompass the full production process from the manufacturing of battery powder and cells, to the assembly of battery cells and modules which would then be assembled into complete battery pack systems for vehicles, and would create up to 371 new jobs with an investment of \$121 million. Mr. Alexander indicated that A123 was using the Michigan Jobs Bank to find experienced employees, and was excited about moving forward. Mr. Barr indicated that it was a pleasure to work with the MEDC, and that this project was a poster child for success in Michigan.

Mr. Kleine asked when the company anticipated becoming profitable. Mr. Alexander responded that they expect to be profitable at the end of 2011, and that they are in a rapid growth mode. Mr. Alexander also indicated that this Renaissance Zone encompasses parcels 1 and 2, but that the project also includes parcels 3 and 4, which will create an additional 100 jobs each.

Recommendation: MEDC Staff recommends MSF approval of Wayne County's request for a MSF Designated Renaissance Zone for A123 Systems, Inc. for a 15 year designation. The property parcel numbers are 80-024-99-0001-702, 80-024-99-0001-703, 80-024-99-0004-701, 80-024-99-0004-702, 80-024-99-0004-703 and 80-024-99-0001-704, contingent upon the following: (i) By May 26, 2011, A123 Systems, Inc. shall have commenced the project outlined in Wayne County's application for a MSF Designated Renaissance Zone by having started building improvements and the purchase and placement of the new machinery and equipment at the new facility; and (ii) A development agreement is finalized by December 31, 2010 between the Michigan Strategic Fund, the City of Romulus, A123 Systems, Inc., Welsh Romulus, LLC, BPE Exchange, LLC, BPW Exchange, LLC and Welsh Romulus Development, LLC.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Kleine made a motion for approval of Resolution 2010-084. Mr. Rassel seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM – JOB CREATION:

Resolution 2010-085: Village of Caseville, Huron County – Charity Island Productions – Sound Studio, Building Acquisition/Renovation Grant - \$935,000 – CDBG-R

Katharine Czarnecki, MEDC Community Assistance Team Manager provided information to the Board for the action item.

Ms. Czarnecki indicated that the Village of Caseville has requested a \$935,000 CDBG grant to assist with the acquisition and renovation of a building, and that the funds will be provided through the American Recovery and Reinvestment Act. Ms. Czarnecki indicated that it is anticipated that \$125,000 will be invested and 15 new jobs will be created by Charity Island Productions as result of this project. Ms. Czarnecki also indicated that the Michigan Film Office had reviewed the project and recommended approval.

Recommendation: MEDC Staff has concluded that the project meets the minimum program requirements to be eligible under the CDBG program. Staff recommends that an application in the amount of \$935,000 be authorized for the Village of Caseville.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Rothstein made a motion for approval of Resolution 2010-085. Mr. Jackson seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-086: Imlay Township, Lapeer County – Champion Bus Infrastructure Project - \$319,500

Katharine Czarnecki provided information to the Board for the action item.

Ms. Czarnecki indicated that Imlay Township has requested a \$319,500 CDBG grant to pay for the construction of a 12” water main to provide Champion Bus access to municipal water for a new building. Ms. Czarnecki indicated that it is anticipated that \$7,419,300 will be invested and 40 new jobs will be created as result of this project.

Recommendation: MEDC Staff has concluded that the project meets the minimum program requirements to be eligible under the CDBG program. Staff recommends that an application in the amount of \$319,500 be authorized for Imlay Township.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Herbert made a motion for approval of Resolution 2010-086. Mr. Rassel seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM – AREA WIDE BENEFIT:

Resolution 2010-087: City of Scottville, Mason County – Downtown Façade Improvement Project - \$194,500

Katharine Czarnecki provided information to the Board for the action item.

Ms. Czarnecki indicated that the City of Scottville has requested a \$194,500 CDBG grant to fund the façade improvements for five buildings located within their Downtown Development Authority District.

Recommendation: MEDC Staff has concluded that the project meets the minimum program requirements to be eligible under the CDBG program. Staff recommends that an application in the amount of \$194,500 be authorized for the City of Scottville.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Kleine made a motion for approval of Resolution 2010-087. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

ADDITIONAL BUSINESS: Mr. Main asked if there was any additional business to discuss. Being none, Mr. Main adjourned the meeting at 2:31 p.m.