

MICHIGAN STRATEGIC FUND BOARD
January 27, 2010

ADOPTED MEETING MINUTES

A meeting of the Michigan Strategic Fund (MSF) Board was held on Wednesday, January 27, 2010 at the MEDC building, Lake Michigan Room, 300 N. Washington Sq., Lansing, Michigan.

MEMBERS PRESENT: Linda Ewing; James Herbert; Paul E. Hodges, III; Robert J. Kleine; Greg Main; Mitch Mondry; James Petcoff; Stanley “Skip” Pruss; Charlie Rothstein

MEMBERS ABSENT: George Jackson; Richard Rassel

CALL TO ORDER: Mr. Main called the meeting to order at 1:31 p.m.

APPROVAL OF MINUTES: Mr. Main asked for a motion to approve the December 16, 2009 meeting minutes. **Mr. Mondry motioned approval of the minutes. Mr. Petcoff seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent

PUBLIC COMMENT: Mr. Main asked if there was any other public comment. There was none.

COMMUNICATION ITEMS: Nathan Ohle, MEDC Board Relations Liaison, advised the Board that he had received a recusal letter from Treasurer Kleine for Agenda Item G-1.

21st CENTURY JOBS FUND:

Centers of Energy Excellence (COEE) Program Presentation

Martin Dober, MEDC Vice President, New Markets, provided the presentation.

Mr. Dober provided a PowerPoint presentation and spoke about the 2nd phase of the COEE Program. Mr. Dober talked about the targeted industry clusters: advanced bio-fuels, advanced energy storage, wind, solar/photovoltaic, and advanced materials. Mr. Dober then spoke briefly about the legislation passed in the summer of 2008 allowing the 1st phase of the COEE Program and the criteria established for companies to participate in the program. Mr. Dober talked about the trilateral COEE model of cooperation between the private sector, government, and academia. Mr. Dober made mention of \$43 million already awarded to six Centers of Energy Excellence.

Mr. Rothstein asked Mr. Dober about the overall investment of the participating companies. Mr. Dober responded and spoke about the companies’ overall investments being included in the original application, and those companies’ having thus far garnered over \$329 million in matching dollars. Mr. Herbert asked whether that money was anticipated or committed investment. Mr. Dober answered that the number was money that the companies had been able to leverage based on the COEE funding. Mr. Rothstein asked Mr. Dober when money would be allocated to each company. Mr. Dober responded and indicated that in 50% of the projects the MEDC would not be providing any funding until there is evidence of federal funding coming into each company.

Mr. Rothstein asked about how the MEDC knows if the funds are spent in Michigan. Mr. Dober spoke about the MEDC tracking invoices and monitoring spending by invoices. Mr. Dober added, “If a company wants to spend its awarded funds outside of the State, the company must seek approval from the Board.”

Mr. Herbert asked about Working Bugs, LLC and whether they had received any matching funds, and whether Working Bugs had received any money from the COEE program yet. Mr. Dober stated that Working Bugs had specific milestones that they had to reach before receiving money.

Mr. Mondry asked about the total dollars invested into Michigan and whether companies reported each year. Mr. Dober stated that companies were required to report expenses when they are involved with multiple incentives.

Mr. Rothstein stated that a tutorial on each COEE target market and their incentives would be helpful to the Board. Mr. Dober mentioned bringing applications to the Board. Mr. Rothstein stated that it would be fine to have the application in the Board meeting packet as long as it was prior to the meeting. Mr. Rothstein pointed out that when Board members are faced with a new company, the entrepreneurs are generally very enthusiastic and with Board members put on the spot it's difficult to deny them.

Mr. Herbert restated his Working Bugs, LLC question. Mr. Dober stated that Michigan COEE funds had to match federal funds up to 50% of the total project costs. For example, in the case of Mascoma, the project would never have happened without the backing of Michigan funds. Mr. Dober answered Mr. Herbert by explaining that Working Bugs, LLC had received COEE award money, in the first stage of three disbursements.

Mr. Rothstein asked what the success stories of the COEE program were. Mr. Dober responded that A123 Systems was a great success story, specifically mentioning the federal grant they received and their plan to create hundreds of jobs in Michigan. Deanna Richeson, MEDC Strategic Relationships Director, spoke about how A123 Systems had reached all their milestones including an increase in hiring. Mr. Herbert asked about how much money A123 Systems invested in Michigan. Mr. Dober stated that over \$600 million would be invested when the project was completed.

Mr. Herbert asked about the next disbursement the MEDC was about to make and whether it was covering the companies' operating costs. Mr. Dober stated that often a company would receive two times as much private funding, which would cover most of the operating costs.

Treasurer Kleine asked if the federal funding for the COEE would've been possible without the Michigan money. Mr. Dober answered that the COEE companies likely would not receive the federal awards without the COEE program.

Mr. Rothstein spoke about a need to continually improve this process and suggested a tighter focus on the target markets and further suggested that the focus might need to be on battery and not bio-fuels. Mr. Dober agreed and pointed out that markets do continually change, pointing out all of the federal money targeted towards bio-fuel technology before gas prices declined.

Director Pruss asked Mr. Dober to further explain the "cluster approach." Mr. Dober talked about strategic areas within the state leveraging comparative advantages in a collaborative plan to capture investment. Mr. Dober also spoke about targeted attraction and gave a personal example of identifying Mascoma as a high-level target, and then flying to Boston, MA and approaching that company to come to Michigan. Mr. Dober talked about the internal MEDC staff of industry, technology, and business experts for the targeted industries and the MEDC Staff's frequent meetings to ensure accurate marketing to attract the ideal businesses and thorough preparation to ensure that the deals are closed. Director Pruss asked about the MEDC's collaboration with National Laboratories. Mr. Dober talked about the MEDC cultivating a healthy relationship with National Laboratories which helps secure federal funding.

Mr. Hodges asked if this year's \$30 million in funding would have a pent up demand like the previous year. Mr. Dober answered that it was likely that the program would receive requests well over the \$30 million total available.

[Treasurer Kleine leaves the meeting at 2:00 p.m.]

Mr. Main spoke of the American Process project, where an Alpena based mill's wood waste is being turned into cellulosic fuel. Mr. Main talked about Valero Energy Corporation being one of the investors, proving that they've found value in bio-fuel project. Mr. Main talked about the production of that cellulosic fuel securing the Alpena mill's future and the jobs associated with it.

Mr. Dober spoke about the relationship that the MEDC has established with the Department of Energy. Mr. Dober concluded the PowerPoint presentation and talked about several changes to the qualifying criteria to participate in Phase Two of the COEE program. Mr. Rothstein asked about Due Diligence and who conducted it. Mr. Dober answered that Due Diligence is done internally by industry experts. Mr. Dober continued by stating that the due diligence would be conducted by MBA types with business and industry expertise. Mr. Rothstein asked if the MEDC had considered using a third party for due diligence. Mr. Dober spoke about his confidence in the internal staff and the additional help from NextEnergy staff.

Mr. Herbert asked about one of the slides depicting companies with rejected COEE applications being brought to the Board. Mr. Dober stated that this was advised by the Attorney General's staff.

Resolutions 2010-001, 2010-002, and 2010-003: COEE Program Updates

Mr. Dober provided information about the actions.

Mr. Dober indicated that the Board would need to approve three separate actions: (1) Approve the COEE subcommittee; (2) Approve the COEE application and application process; and (3) Approve \$21 million be authorized to be used for the COEE program in 2010.

Mr. Rothstein suggested that Mr. Hodges be appointed to the subcommittee. Mr. Ohle stated that members could easily be added to the Committee. Mr. Herbert volunteered to give up his appointment to the subcommittee with Mr. Hodges as a replacement. Mr. Mondry also volunteered as an additional member to the subcommittee.

Mr. Ohle clarified that the Board would vote to approve Paul Hodges, Mitch Mondry, Skip Pruss and Richard Rassel as members of the COEE subcommittee.

Recommendation: MEDC Staff recommends the following members for the COEE Committee: Stanley F. Pruss, (Director of DELEG); Paul E. Hodges, III; Richard E. Rassel; and Mitchell A. Mondry. MEDC Staff recommends the MSF Board approve the COEE application and application process. MEDC Staff also recommends that the MSF request \$21 million from the Michigan Department of Treasury, to be transferred from the Michigan 21stCJF to the MSF, and that the MSF Board allocate this \$21.0 million from the 21stCJ Trust Fund 2009-2010 fiscal year appropriation to the COEE Program in the MSF.

Board Discussion: Mr. Main asked if there were any questions from the Board about the first resolution. Being none, **Mr. Herbert made a motion for approval of Resolution 2010-001. Mr. Petcoff seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent. Mr. Main asked if there were any questions from the Board about the second resolution. Being none, **Mr. Petcoff made a motion for approval of Resolution 2010-002. Mr. Hodges seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent. Mr. Main asked if there were any questions from the Board about the third resolution. Being none, **Mr. Mondry made a motion for approval of Resolution 2010-003. Mr. Petcoff seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolutions 2010-004 & 2010-005: Michigan Supplier Diversification Program (“MSDP”) Updates
Paul Brown, MEDC Capital Markets Development Manager, provided information about the action.

Mr. Brown spoke about the purpose of the MSDP and stated that on January 5, 2010, Governor Granholm signed PA 218 of 2009 into law amending the MSF Act, PA 270 of 1984. The new bill allows the MSF to target remaining funds from FY 2008-09 to MSF Chapter 8A programs such as the Michigan Supplier Diversification Fund.

Recommendation: MEDC Staff recommends the MSF request \$13 million from the Michigan Department of Treasury, to be transferred from the Michigan 21st Century Jobs Trust Fund to the MSF. Staff further recommends that once funds are received from the 21st Century Jobs Trust Fund, they be allocated to the Michigan Supplier Diversification Fund for future use. Staff also recommends a modification to the Michigan Collateral Support Program (MCSP) guidelines to be effective for all MCSP transactions approved by the Board or Chairperson from and after January 27, 2010, as further explained in the memorandum.

Mr. Rothstein asked about the SEIC Board competition. Mr. Brown confirmed that there was no 2009 competition and that there is approximately \$25 million remaining. Mr. Rothstein asked how the SEIC will respond. Mr. Main stated that the SEIC Board was aware of this request, and that using the available funds on the manufacturing sector seemed to be the most timely and practical use of the funds.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Herbert made a motion for approval of Resolution 2010-004. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent. Mr. Main asked if there were any questions from the Board. Being none, **Mr. Hodges made a motion for approval of Resolution 2010-005. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-006: Approval of Vestaron Corporation and eFarms, LLC to Receive an Award from the Company Formation and Growth Fund

Leslie Smith, MEDC 21st Century Jobs Competition Manager, provided information about the action.

Ms. Smith spoke about the Committee for the Company Formation and Growth Fund meeting and voting to approve two loan applications; (1) Vestaron Corporation; and (2) e Farms, LLC.

Recommendation: MEDC Staff recommends the MSF Board approve the Committee’s recommendation to approve CFGF investments in Vestaron Corporation and eFarms, LLC.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Herbert made a motion for approval of Resolution 2010-006. Mr. Petcoff seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-007: SBTDC/SBIR Matching Grant

Ms. Smith provided information about the action.

Ms. Smith spoke about the SBIR or STTR grant or loans matching program and the great work that they were accomplishing.

Recommendation: MEDC Staff is requesting the MSF Board to approve a grant to the SBTDC to continue to manage the Emerging Technology Fund Matching Program.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Mondry made a motion for approval of Resolution 2010-007. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-008: Evigia Systems, Inc. – Subordination Request

Leslie Smith provided information for the action item.

Ms. Smith spoke about Evigia Systems, Inc. (Evigia) which received a 2006 21st Century Jobs Fund award for \$1,736,300.00. In November of 2009, Evigia was able to secure a conventional line of credit

with Ann Arbor State Bank (AASB) for \$250,000 as well as an additional \$250,000 loan from its primary shareholder, Navid Yazid.

Recommendation: MEDC Staff recommends proceeding to finalize a Subordination Agreement with AASB to a maximum of the principal amount of a \$1,000,000 line of credit from AASB. Staff also recommends the subordination arrangement to the MSF Investment Subcommittee, and the MSF Investment Subcommittee indicated it was in favor of making the recommendation to the MSF Board.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Ms. Ewing made a motion for approval of Resolution 2010-008. Mr. Hodges seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

PRIVATE ACTIVITY BONDS – ISSUING:

Resolution 2010-009: CFP Michigan, LLC/Community Facility Partners – NTE \$6,500,000 – New Financing/Non-Profit

Diane Cranmer, MEDC IDR Specialist, provided information for the action item.

Ms. Cranmer spoke briefly about the project being approved at the December 16, 2009, MSF Board meeting, and that the company needed an extension.

Recommendation: Based upon a determination by Dykema Gossett 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 \$6,500,000.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Herbert made a motion for approval of Resolution 2010-009. Mr. Mondry seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

PRIVATE ACTIVITY BONDS – OTHER:

Resolution 2010-010: Marathon Oil Corporation – Amendment to Inducement

Ms. Cranmer provided information for the action item.

Ms. Cranmer spoke briefly about Marathon Oil Corporation (Marathon) requesting a two year extension of Resolution 2008-022 to February 27, 2012. It is Marathon's hope that this will allow time for tax-exempt capital markets to normalize.

Recommendation: MEDC Staff recommends the approval of the amending resolution to extend the expiration date for Marathon's inducement resolution to February 27, 2012.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Herbert made a motion for approval of Resolution 2010-010. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM – ADMINISTRATIVE:

CDBG Program Overview Presentation

Robert Wilson, MEDC Program Analyst, and Nicholas Sekmistrz, MEDC Program Specialist, provided a presentation to the Board.

Mr. Wilson and Mr. Sekmistrz gave a detailed overview of the CDBG Program with the aid of a PowerPoint presentation.

Ms. Ewing asked about the decentralized nature of the CDBG process and whether there was a broader economic strategy. Mr. Wilson answered that each community brings their respective projects to the MEDC, and that MEDC staff then identifies potential matches. Kevin Bonds, MEDC Business and Community Services Manager, stated that the CDBG five year plan is being written in April of this year, which is the perfect opportunity to take a closer look at the program and focus on the balance of spending.

Resolutions 2010-011 & 2010-012: Holland Project Time Extension

Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the NOVO I and Johnson Controls-Saft projects had been approved at the December 2009 MSF Board Meeting, and that the projects had been approved by HUD on January 20, 2010 after the January 15th deadline.

Recommendation: MEDC Staff recommends that the MSF Board extend the deadline established by Resolution 2009-230 to January 20, 2010, and authorize the Community to submit an application not to exceed \$1,000,000 for the payment or reimbursement of costs associated with the Project, subject to any terms or conditions required by HUD in its approval or consent. Staff further recommends that the MSF Board extend the deadline established by Resolution 2009-231 to January 20, 2010, and authorize the Community to submit an application not to exceed \$2,000,000 for the payment or reimbursement of costs associated with the Project, subject to any terms or conditions required by HUD in its approval or consent.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Hodges made a motion for approval of Resolution 2010-011. Mr. Petcoff seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent. Mr. Main asked if there were any questions from the Board. Being none, **Mr. Hodges made a motion for approval of Resolution 2010-012. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM – JOB CREATION:

Resolution 2010-013: City of Adrian, Lenawee County – Inteva Products, LLC -- \$120,000 Machinery and Equipment Grant

Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the project is expected to create 20 new full time positions over the next two years with a minimum starting hourly rate of \$12/hr. The project meets the national objective that 11 of the 20 created positions will be held by low and moderate income persons.

Recommendation: MEDC Staff recommends that an application in the amount of \$120,000 be authorized for the City of Adrian.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Mondry made a motion for approval of Resolution 2010-013. Mr. Hodges seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-014: City of Coopersville, Ottawa County – Saturn Electronics & Eng., Inc. -- \$500,000 Machinery and Equipment Grant

Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the project is expected to create 26 new full time positions over the next two years with a minimum starting hourly rate of \$14.5/hr. The project meets the national objective that 14 of the 26 created positions will be held by low and moderate income persons.

Recommendation: MEDC Staff recommends that an application in the amount of \$500,000 be authorized for the City of Coopersville.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Petcoff made a motion for approval of Resolution 2010-014. Ms. Ewing seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM – DOWNTOWN DEVELOPMENT:

Resolution 2010-015: City of Boyne City, Charlevoix County – Downtown Planning Project - \$25,000

Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the City of Boyne City has requested the funds for an economic feasibility study of the potential end-uses for the Dilworth Hotel property located within their DDA (District) in Charlevoix County.

Recommendation: MEDC Staff recommends that an application in the amount of \$25,000 be authorized for the City of Boyne City.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Hodges made a motion for approval of Resolution 2010-015. Mr. Herbert seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-016: Village of Burr Oak, St. Joseph County – Façade Improvement Project -- \$200,000
Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the Village of Burr Oak has requested the funds for façade improvements to a building located at 210 Third Street and 228 Third Street, in St. Joseph County.

Recommendation: MEDC Staff recommends that an application in the amount of \$200,000 be authorized for the Village of Burr Oak.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Petcoff made a motion for approval of Resolution 2010-016. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-017: Village of Lincoln, Alcona County – Streetscape Project -- \$650,000

Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the Village of Lincoln has requested the funds for a streetscape project in the heart of their downtown, including the replacement of sidewalks, pedestrian oriented streetlights, street trees with tree grates, benches, trash receptacles, ADA sidewalk ramps, new curb and gutter, and the reconstruction of pavement of 2nd Street and relocation of all utility lines.

Recommendation: MEDC Staff recommends that an application in the amount of \$650,000 be authorized for the Village of Lincoln.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Ms. Ewing made a motion for approval of Resolution 2010-017. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-018: Village of Pellston, Emmet County – Streetscape Project -- \$581,883

Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the Village of Pellston has requested the funds for a streetscape project in the heart of their downtown (US-31), including the replacement of sidewalks, installing streetlights, and curb and gutter improvements.

Recommendation: MEDC Staff recommends that an application in the amount of \$581,883 be authorized for the Village of Pellston.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Hodges made a motion for approval of Resolution 2010-018. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-019: City of Plainwell, Allegan County - Downtown Parking lot expansion -- \$639,000

Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the City of Plainwell has requested the funds for a downtown parking project and pedestrian bridge in their downtown.

Recommendation: MEDC Staff recommends that an application in the amount of \$639,000 be authorized for the City of Plainwell.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Rothstein made a motion for approval of Resolution 2010-019. Mr. Petcoff seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

Resolution 2010-020: City of Yale, St. Clair County - Downtown Parking lot renovation -- \$292,500

Kevin Bonds provided information to the Board for the action item.

Mr. Bonds indicated that the City of Yale has requested the funds for a downtown parking project in the heart of their downtown.

Recommendation: MEDC Staff recommends that an application in the amount of \$292,500 be authorized for the City of Yale.

Board Discussion: Mr. Main asked if there were any questions from the Board. Being none, **Mr. Hodges made a motion for approval of Resolution 2010-020. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 0 recused; 3 absent.

ADDITIONAL BUSINESS: Mr. Main thanked the Board Members for their time and stated that the MSF Board had received another clean audit report.

Mr. Herbert asked Mr. Bonds if the CDBG money and projects were shovel ready when the frost is gone. Mr. Main answered yes and went further saying that in 2008 the MSF Board approved 27 CDBG projects and in 2009 the Board approved 124 CDBG projects. Mr. Main stated that there would be a lot of activity this construction season.

Mr. Main asked if there was any additional business to discuss. Being none, Mr. Main thanked all those in attendance once more and adjourned the meeting at 3:03 p.m.