

**MICHIGAN STRATEGIC FUND BOARD**  
**June 24, 2009**

**ADOPTED MEETING MINUTES**

A meeting of the Michigan Strategic Fund (MSF) Board was held on Wednesday, June 24, 2009 at the MEDC building, Lake Michigan Room, 300 N. Washington Sq. N., Lansing, Michigan.

**MEMBERS PRESENT:** Greg Main; Linda Ewing; James Herbert; Paul Hodges; Robert Kleine; Mitch Mondry; Susan Corbin (acting on behalf of Stanley “Skip” Pruss, authorization attached); Richard Rassel; Charlie Rothstein

**MEMBERS ABSENT:** George Jackson; James Petcoff

**CALL TO ORDER:** Mr. Main called the meeting to order at 1:34 p.m.

**APPROVAL OF MINUTES:** Mr. Main asked for a motion to approve the May 20, 2009 meeting minutes. **Treasurer Kleine motioned approval of the minutes. Mr. Rassel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent

**PUBLIC COMMENT:** Mr. Main asked if there was any public comment.

*John T. Llewellyn, VP - Government Relations, Michigan Bankers Association*

Mr. Llewellyn, thanked the Board and talked about his approval of the Michigan Supplier Diversification Fund (MSDF) and how it would improve lending efficiency.

*Stephen L. Sandstedt, Priority Development Corporation*

Mr. Sandstedt spoke about the present economic times in Michigan, where “profitable” companies are struggling because they can’t gain access to capital lending for their diversification efforts. He talked about how asset values, especially automotive industry equipment, have plummeted and as a result banks aren’t willing to use that equipment as collateral for lending. Mr. Sandstedt emphasized that the Michigan Loan Participation Program (MLPP) and the Michigan Collateral Support Program (MCSP) are necessary because the banking system is paralyzed. Mr. Sandstedt concluded by the saying the banking system needs all the help it can get and then he thanked the Board.

Mr. Main said he appreciated the comments and asked if there was any further comment from anyone who would like to address the Board. There was none.

**COMMUNICATION ITEMS:** Mr. Main advised the Board members that a letter had been received from Richard Rassel recusing himself two projects on the June 24, 2009 MSF Board Agenda—Nanocerox and Hindu Temple.

**21st CENTURY JOBS FUND:**

**Resolutions 2009-058, -059, -060, & -061: Michigan Supplier Diversification Fund**

*Paul Brown, MEDC Capital Markets Development Manager, gave a brief overview of the Michigan Supplier Diversification Fund to the Board and provided information for each of the four following action items.*

Mr. Brown informed the Board of the program’s status saying that the Michigan Loan Participation Program (MLPP) final documents have been approved by the AG’s office in legal form and that MEDC staff conducted a public hearing to get feedback on the program.. Mr. Brown reminded the Board that there were four specific actions required from the Board.

**Recommendation:** MEDC Staff recommends approval of the MLPP documents, specifically the “Loan Participation and Servicing Agreement” and the “Supplemental Agreement” as proposed and attached. MEDC Staff also recommends approval of the: Michigan Collateral Support Program (MCSP) and its

guidelines, the “Cash Collateral Deposit Agreement” as proposed and attached, as well as the decision document from the public hearing.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Mr. Rassel made a motion for approval of Resolution 2009-058. Treasurer Kleine seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent. Mr. Main asked if there were any questions from the Board. Being none, **Ms. Corbin made a motion for approval of Resolution 2009-059. Mr. Rassel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent. Mr. Main asked if there were any questions from the Board. Being none, **Treasurer Kleine made a motion for approval of Resolution 2009-060. Mr. Rassel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent. Mr. Main asked if there were any questions from the Board. Being none, **Mr. Herbert made a motion for approval of Resolution 2009-061. Mr. Rassel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

### **Resolutions 2009-062, -063, -064, & -065: Credit Suisse Investment Proposals**

*Paul Brown, introduced guest presenters Kelley Williams, Managing Director, Co-Head of Customized Fund Investment Group (CFIG – Group within Credit Suisse); Bob Payne, In-State Investment Specialist, CFIG; Sean O’Donnell, In-State Investment Specialist, CFIG; and Mel Carter, In-State Investment Specialist, CFIG*

Ms. Williams outlined the overall impact of the program as well as the successes Credit Suisse has seen throughout their investment portfolio.. Ms. Williams outlined the first investment recommendation for Peninsula Fund V, LP. Credit Suisse performed due diligence on this proposal and recommends that the MSF Board invests in Peninsula Fund V, LP in an amount up to \$14,500,000.

*Mitch Mondry asked for clarification of an amount listed in the memo. Ms. Williams stated that the recommended investment amount was \$14,500,000.*

Mr. Main asked if there were any questions from the Board. Being none, **Mr. Herbert made a motion for approval of Resolution 2009-062. Treasurer Kleine seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

Mr. Payne brought an investment recommendation in Arsenal Venture Partners II, LP before the Board for approval. Mr. Payne spoke about Arsenal’s team and focus being different than previous investments brought before the Board. He stated that Arsenal’s focus is the defense industry. Credit Suisse performed due diligence on this proposal and recommends that the MSF Board invests in Arsenal Venture Partners II, LP in an amount up to \$5,000,000.

*Mr. Herbert asked where Arsenal was headquartered. Mr. Payne stated Orlando, FL. Treasurer Kleine spoke about this being a large quantity of investments and asked why. Ms. Williams answered that the 21<sup>st</sup> CJF investment timeline is nearing an end and Credit Suisse was able to pull together all of the information at this time. Mr. Main stated that the Arsenal investment dovetails nicely with Michigan’s aim to diversify into other industries like defense. Mr. Main spoke about how it seems to mesh with overall strategy.*

Mr. Main asked if there were any questions from the Board. Being none, **Treasurer Kleine made a motion for approval of Resolution 2009-063. Mr. Rassel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

Mr. O’Donnell brought an investment recommendation in Early Stage Partners (ESP) before the Board for approval. Mr. O’Donnell spoke about ESP raising nearly \$37 million, well on their way to raising their goal of \$60 million. Mr. O’Donnell said he was excited and stated that the equity firm has 60+ years of experience, with solid references, and that ESP has hit milestone targets. Credit Suisse performed due diligence on this proposal and recommends that the MSF Board invests in ESP II, LP in an amount up to \$6,000,000.

Mr. Main asked if there were any questions from the Board. Being none, **Treasurer Kleine made a motion for approval of Resolution 2009-064. Mr. Rassel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

Ms. Williams brought an investment recommendation in Triathlon Medical Ventures Fund II, LP (TMV). She stated TMV has approximately 120 years of combined experience. Credit Suisse performed due

diligence on this proposal and recommends that the MSF Board invests in Triathlon Medical Ventures Fund II, LP in an amount up to \$10,000,000.

*Paul Brown spoke about how this investment represents the fund being fully invested. Mr. Rothstein spoke about Credit Suisse's dedication to Michigan in a highly contested market. Mr. Herbert stated that the MSF Investment Subcommittee had been able to work effectively with Credit Suisse and appreciated all of the hard work Credit Suisse put into these investments. Mr. Main praised everyone for their efforts. Ms. Williams spoke about Michigan being a great place to invest in and how much Credit Suisse appreciated the opportunity to run this program. Ms. Williams stated that the early returns on the program are very strong, and should only continue to improve.*

Mr. Main asked if there were any other questions from the Board. Being none, **Mr. Mondry made a motion for approval of Resolution 2009-065. Mr. Hodges seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

#### **Resolution 2009-066: Company Formation and Growth Fund**

*Ned Staebler, MEDC VP, Program Administration, provided information to the Board about the action item.*

Mr. Staebler stated that Southwest Michigan First (“SWMF”) was presenting applications from three companies, Metabolic Solutions Development Company, Velesco Pharmaceutical Services LLC, and ADMETRx, Inc. All three proposed company loans were approved for submission to the MSF Board with a recommendation in favor of approval. All projects recommended for funding by the companies satisfy the Criteria, and were recommended by the Committee.

**Recommendation:** MEDC Staff is in support of all three recommendations of the Committee, and recommends approval of the funding requests of these three companies.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Treasurer Kleine made a motion for approval of Resolution 2009-066. Mr. Rassel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

[**Recused:** Richard Rassel]

#### **Resolution 2009-067: Nanocerox Conversion Request**

*Ned Staebler provided information to the Board about the following action.*

Mr. Staebler spoke about a request from Nanocerox that the MSF board immediately consider and approve conversion for the current loan balance and treat all future disbursements as equity disbursements from their previous loan. Mr. Staebler stated that the action had been reviewed by the MSF Investment subcommittee with a positive recommendation.

**Recommendation:** MEDC staff has reviewed the conversion and valuation request and also recommends that the MSF Board approve this request.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Treasurer Kleine made a motion for approval of Resolution 2009-067. Mr. Rothstein seconded the motion.** The motion carried unanimously – 8 ayes; 0 nays; 1 recused; 2 absent.

[**Returned:** Richard Rassel]

#### **Resolution 2009-068: Threefold Sensors Amendment Request**

*Ned Staebler, VP MEDC, Program Administration, provided information to the Board about the action item.*

IA Inc./Threefold Sensors is in the late negotiation stages regarding the acquisition of 80% of the company through an asset purchase or equity acquisition by Three Fold Holding, LLC. In order for Three Fold Holding, LLC to make their investment in IA Inc./Threefold Sensors, Three Fold Holding, LLC has requested modification of both MSF loans (2006 21<sup>st</sup> Century Jobs Fund Loan and Pfizer Formation and Growth Fund Loan) with IA Inc./Threefold Sensors. Mr. Staebler stated that this action would preserve the principal but would forgo accrued interest.

**Recommendation:** MEDC staff and the MSF Investment Subcommittee recommend that the loan modifications as described in the non-binding term sheet be approved.



will benefit from the service for blight control. 6 immediate new jobs in 2009 and up to 15 new jobs will be created in the first four years.

**Recommendation:** MEDC staff recommends MSF approval of Wakefield Township's request for a thirteen (13) year time extension for property parcel number 05-18-302-400 in the Township of Wakefield subzone in the North Country Renaissance Zone, contingent upon the following: (i) By June 24, 2010, Western UP Recycling Center shall have commenced the project outlined in Wakefield Township's application in the Township of Wakefield subzone in the North Country Renaissance Zone. (ii) A development agreement is negotiated and signed between Western UP Recycling Center, LLC and the Michigan Strategic Fund.

**Board Discussion:** Mr. Main asked if there were any questions from the Board about the request for time extension. Being none, **Mr. Rassel made a motion for approval of Resolution 2009-070. Mr. Mondry seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

**Resolution 2009-071: New Renewable Energy Renaissance Zone, Production of Cellulosic Biofuel, City of Alpena, Alpena County – Alpena Prototype Biorefinery LLC (APB)**

*Lisa Pung, MEDC Renaissance Zone Analyst, introduced Dr. Theodora Retsina, President of Alpena Prototype Biorefinery LLC; Thad Taylor, City Manager, City of Alpena; and Greg Sundin, Planning and Development Director.*

Ms. Pung spoke about APB which will be located adjacent to the existing Decorative Panels International (DPI) hardboard manufacturing plant in Alpena, Michigan. The DPI plant produces high-density hardboard for interior paneling. DPI's manufacturing process starts with the steam extraction of hardwood chips. Currently, the steam hydrolyzate, which contains dissolved organics, is removed from the remaining softened wood (pulp) and sent to the facility's wastewater plant for costly treatment. The proposed APB will use this hydrolyzate steam to generate 930,000 gallons per year of fuel grade ethanol and 2,000 tons per year of sodium acetate that will be sold as a non-corrosive deicer for airport runways.

*Mr. Rassel asked for clarification on how much sodium-acetate APB will actually produce compared to the entire market. Dr. Retsina answered saying that Alpena would produce about one fifth of the total sodium acetate market.*

**Recommendation:** MEDC staff recommends the MSF approval to the State Administrative Board for a new Renewable Energy Renaissance Zone which meets the cellulosic biofuel production criteria to be designated in the City of Alpena and Alpena County for a 15 year designation. The property parcel number is 04-093-810-000-025-00, contingent upon the following: (i) By June 24, 2010, Alpena Prototype Biorefinery LLC shall have commenced the project outlined in the City of Alpena's application for a new Renewable Energy Renaissance Zone. (ii) A development agreement is finalized between the Michigan Strategic Fund and Alpena Prototype Biorefinery LLC. (iii) On or before February 1, 2010, Alpena Prototype Biorefinery LLC acquires ownership of property parcel number 04-093-810-000-025-00.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Mr. Rassel made a motion for approval of Resolution 2009-071. Ms. Corbin seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

**Resolution 2009-072: New Subzone Request, Manistee County Renaissance Zone, City of Manistee, Manistee County – Amptech, Inc.**

*Kevin Bonds provided information for the action item and introduced, Khalfani Stephens, Deputy Director Pontiac Growth Group.*

Mr. Bonds spoke about Amptech, Inc., a contract electronic manufacturer of circuit boards, wire harnesses, electronic assemblies and other electronic systems. The project will consist of a new corporate headquarters and production facility. A transfer of 40 jobs from existing Amptech facility in Mason County will occur and approximately 40 new jobs will be created over a 5 year period.

**Recommendation:** MEDC staff recommends MSF approval of Manistee County's request for a new subzone for a period of seven (7) years for property parcel number 51-51-155-010-00 in the City of Manistee in the

Manistee County Renaissance Zone, contingent upon the following: (i) By June 24, 2010, Amptech, Inc. shall have commenced the project outlined in Manistee County's application within the new subzone designated for Amptech, Inc. in the Manistee County Renaissance Zone. (ii) A development agreement is negotiated and signed between Amptech, Inc., Dacaro Realty, LLC, and the Michigan Strategic Fund.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Mr. Russel made a motion for approval of Resolution 2009-072. Mr. Rothstein seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

#### **COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM:**

##### **Resolution 2009-073: City of Marine City, St. Claire County – \$81,340**

*Kevin Bonds provided information for the following action.*

The City of Marine City (St. Clair County) is requesting an \$81,340 Community Development Block Grant (“CDBG”) for façade improvements to four (4) buildings located in the City's core downtown district. The total cost of these improvements is \$216,430, with \$135,090 being matched for the project by the community and building owners with private funding.

**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 \$81,340 be authorized for the City of Marine City.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Treasurer Kleine made a motion for approval of Resolution 2009-073. Mr. Russel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

**[Recused:** Charlie Rothstein]

##### **Resolution 2009-074: Frontier Medical, Marquette County – \$390,000**

*Kevin Bonds provided information for the following action.*

Mr. Bonds talked about the project for Frontier Medical, a start up company that will produce medical orthopedic products. Products will include medical screws and plates initially. Frontier Medical anticipates they will create 48 jobs over the next two years.

**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 \$390,000 be authorized for Marquette County.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Mr. Russel made a motion for approval of Resolution 2009-074. Treasurer Kleine seconded the motion.** The motion carried unanimously – 7 ayes; 0 nays; 1 recused; 2 absent.

**[Returned:** Charlie Rothstein]

##### **Resolution 2009-075: Emerald Green Recovery, City of Manistique – Infrastructure Improvement Grant \$330,000**

*Kevin Bonds provided information for the following action.*

Emerald Green Recovery is a new company that has been created by Manistique Papers. They will collect and unbind hard cover textbooks. The interior pages will be sold to Manistique Papers as a raw material for recycling into paper. The hard covers and spine will be shredded and sold to companies other than Manistique Papers for insulation and packaging materials. Emerald Green Recovery anticipates they will create 22 jobs over the next two years.

**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 \$330,000 be authorized for the City of Manistique.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Treasurer Kleine made a motion for approval of Resolution 2009-075. Mr. Russel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

**Resolution 2009-076: Village of Lennon, Shiawassee County – Infrastructure Grant \$66,680**

*Kevin Bonds provided information for the following action.*

The Village of Lennon is requesting a \$66,680 Community Development Block Grant (“CDBG”) for the extension of a sewer line to service Alderman’s Inc. The work to be performed as part of the CDBG funded project is to extend a sewer line 735 feet from the Alderman’s site to the nearest connection, all occurring within the Village limits. The sewer line is needed to replace the existing sewer septic field, which currently requires draining once a month and prevents the expansion of Alderman’s business. In conjunction with the installation of the sewer, Alderman’s has committed to expand their operational capabilities by increasing the size of their warehouse so it can include a service and repair area. The current service shop contains approximately 9,000 square feet of space, but will undergo modification including weatherproofing and mechanical upgrades to add just over 12,000 additional square feet.

**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 \$66,680 be authorized for the Village of Lennon.

**Board Discussion:** Mr. Main asked if there were any questions from the Board. Being none, **Ms. Corbin made a motion for approval of Resolution 2009-076. Mr. Rassel seconded the motion.** The motion carried unanimously – 9 ayes; 0 nays; 0 recused; 2 absent.

**STATUS OF FUNDS REPORT:**

*Kevin Bonds provided information for the following item.*

Mr. Bonds informed the Board that the MEDC staff recently received a favorable audit and that he anticipated HUD releasing federal dollars within the month.

*Mr. Herbert spoke about the MEDC speeding up the process for these grants and commended staff on their hard work.*

**ADDITIONAL BUSINESS:** Mr. Main asked if there was any additional business to discuss.

**ADDITIONAL BUSINESS:** Being no more additional business, Mr. Main adjourned the June 24, 2009 MSF Board Meeting. The meeting was adjourned 3:03 p.m.