

MINUTES  
CITY OF FARMINGTON HILLS  
ECONOMIC DEVELOPMENT CORPORATION  
August 20, 2014 – Special Meeting

The Economic Development Corporation of the City of Farmington Hills held its Special meeting on Wednesday, August 20, 2014, in the Community Room at City Hall. Chairman Anhut called the meeting to order at 8:00 a.m.

Members present: Anhut, Brock, Elliott, Gatewood, Hartsock, Jacknow and Sarafa

Members absent: Marcellino (and one vacancy)

Also present: Ms. Madhu Oberoi, Interim Economic Development Director

APPROVAL OF AGENDA

MOTION by Brock, support by Hartsock, to approve the agenda as published.

Motion carried unanimously.

APPROVAL OF MINUTES

MOTION by Brock, support by Jacknow, to approve the meeting minutes of June 18, 2014 as published.

Motion carried unanimously.

CHAIRMAN'S REPORT

Chair Anhut stated that Lee Manduzzi has resigned from the EDC as of June, and has retired from Bosch. He said Norman Johnson from Bosch is planned to replace Mr. Manduzzi as an Economic Development Corporation board member. Chair Anhut and the Economic Development Corporation members agreed that Mr. Manduzzi will be greatly missed; and they wished him all the best.

NEW BUSINESS / OLD BUSINESS

REQUEST FOR CONSIDERATION OF PERSONAL PROPERTY TAX EXEMPTION FOR CEP-BIOCOAT LLC.

Chair Anhut welcomed Keith Wasilenski and Luke Schrader who were present to discuss the subject request for personal property tax exemption for BioCoat, LLC. He noted that the company has recently resurfaced the parking lot.

Ms. Oberoi explained that CEP BioCoat is currently in Southfield and is in the process of relocating to Farmington Hills. She said the building they are moving into has been vacant for several years. The company has secured a lease for the building, and the City welcomes them at 23149 Commerce Road.

Ms. Oberoi stated that CEP BioCoat LLC, is requesting a personal property tax abatement (P.A. 198) of 50% for seven years; and the establishment of an Industrial Development District. She mentioned the strong voter

support for the PPT reform at the August 5 primary, and said the personal property tax is expected to be eliminated in 2016. However there are likely to be some legal challenges to the vote.

Ms. Oberoi explained that the lease was for seven years with an option to renew for another three years. She said the City Assessor prepared a worksheet which was included in the meeting packet. She stated that if the personal property tax was eliminated in 2016, the Applicant will be entitled to a tax abatement for only one year (2015) with an approximate savings of \$9,500. She said if the legal challenge was to prevail, CEP BioCoat could get the benefit of a tax abatement for seven years with a saving of \$95,490 over a seven-year period, or \$13,634 annually.

Ms. Oberoi said the Economic Development Corporation's recommendation will be forwarded to the City Council for the establishment of an industrial development district and the PPT exemption. The deadline for submitting the application to the State Tax Commission is October 31, 2014. She noted that the City was also benefitting by having a vacant building being reused in the business community.

Information provided to the Economic Development Corporation included the following:

- CEP BioCoat LLC is a subsidiary of Orchid Orthopedic Solutions specializing in orthopedic implants. Orchid Orthopedics has 16 facilities in the US and operations in India and the UK.
- CEP BioCoat applies plasma coatings to machined orthopedics products received from some of their other facilities and sterile packages them in an ISO-7 certified clean room for shipping.
- CEP BioCoat is currently located at 21249 Bridge Street in Southfield in 3 separate buildings which create some logistical problems for them.
- They have leased a 47,700 sq. ft. building at 23149 Commerce Road in Farmington Hills. The larger building will allow them to consolidate all their operations in one single building. The building will house their coating and packaging operations.
- The Company executed a 102 month lease with MK Principals Limited Partnership on June 1, 2013. The lease will be up for renewal in 2021 and there is an option to renew the lease for one 3 year term.
- The Company expects to invest approximately \$2.81 million in personal property within the next two years and will be moving 130 jobs from their Southfield location into Farmington Hills.
- The existing building at 23149 Commerce Road is larger than their current needs, but will allow them room for future expansion.

Mr. Elliott inquired as to why the company chose to lease the building, rather than purchase it.

Mr. Wasilenski explained that the company felt that leasing the building was more practical and safer than purchasing it, as the landlord would be responsible for building maintenance such as roof leaks, the parking, lot, etc., and it would allow the company to achieve more focus on their core goals. He said leasing was also beneficial in that it provided more mobility.

Mr. Wasilenski provided a power point presentation regarding the company. In summary, the overview explained the strategic combination of world class businesses; Orchid was founded in 2005; they have built a group of "best-of-breed orthopedic suppliers under-one-roof" to offer customers best total supply chain value and the ability to swiftly bring world-class technology products to market; they have 1,800 employees; and 14 locations.

Mr. Wasilenski's presentation included information regarding their specialized implants and innovative technologies for reconstruction; forging/casting; spine/trauma; sports medicine; orthobiologics; extremities; dental; complex instruments; and medical technical development.

Mr. Wasilenski spoke about Orchid's global footprint, noting that Orchid was founded in 2005, but began in 1977 with unique instruments out of Bridgeport, Michigan. He said the company is privately held by a Swedish company. He provided a flow chart of acquisitions. He said they work from design to sterilization and packaging, which is more economical and of a higher quality than can be done in-house. He said much of their focus is on the U.S. market; and because of this, they are under heavy FDA regulations. He said the FDA requires them to remain in the U.S. Overseas operations will only service the overseas areas and markets. Holt, Michigan is their global local headquarters.

Mr. Wasilenski discussed the different types of surfaces that Orchid provides, such as titanium coatings, various substrates, and the customer-defined coating technologies.

Mr. Schrader provided more specific information regarding the coatings. He said the Holt location provides the forgings and plating, and Southfield, soon-to-be Farmington Hills location provides the coating, and they then sterile-package the product and it goes directly to the end user. He said they have planned for an expansion of three times the Southfield location.

Mr. Wasilenski provided a CEP BioCoat relocation summary. He noted that the Southfield location will be closed, and moving to the Farmington Hills location provides significant space in order to accommodate their planned expansion and growth. He said 130 jobs will be maintained. The total relocation cost will be \$5.5 million, and he gave a brief breakdown of the relocation costs. He explained that their goal is to reduce the work time spent on a component, and reduce the amount of mileage the component has to travel to the final product. He said their relocation will shorten this time from ¼ of a mile to 300 feet.

Chair Anhut inquired about the company's proposed use of local contractors.

Mr. Schrader said they will use contractors that they have used previously.

Discussion took place regarding the use of local contractors and suppliers. Chair Anhut emphasized that he wanted the company to take seriously his suggestion regarding the use of local contractors.

Mr. Wasilenski spoke about their desired expansion of their core capabilities and expanding machining so that will allow more forging to take place in Holt.

Mr. Schrader said this facility is the end of the value chain, and it will be where their customers come to see the product. He said their total sales are projected to increase from \$21M in 2013 to \$33M by 2017. He said the company has high expectations for the Farmington Hills location.

Mr. Wasilenski spoke about the extensive amount of required FDA verification. He said the entire move will take about 18 months, and he showed a timeline regarding the validation of equipment. He said the requested \$9,000, may sound small, but they were seeking every break possible to help offset costs.

Discussion took place regarding the relocation efforts that have already begun, starting in June of 2013; the company have the go-ahead for the expenditures, and that is why permits are now being pulled. He said they began working with Ms. Cappola in January of this year. Discussions were stalled due to her illness but resumed again in June after Ms. Oberoi came on board.

Discussion continued regarding who the company's customers are; such as Johnson & Johnson, Zimmer, and many others.

City Manager Brock said he thought the proposal was a good investment for the City. He said the potential legal challenges regarding the personal property tax were not strong.

Ms. Gatewood concurred.

Mr. Elliott said it was good to see this building being used again. He said that street was hit hard by the downturn in the economy, so this endeavor would help to bring that area back to life.

Ms. Oberoi said Orchid will work with the Michigan Economic Development Corporation for training dollars. She said while not yet approved, negotiation was on-going relative to \$300K for job training. She mentioned the Farmington Hills policy that the company must remain at the subject location for twice the number of years of the approved tax abatement.

Discussion ensued regarding their anticipation for increasing their work force. Mr. Wasilenski said by 2017 they foresee a need for a greater work force. Mr. Schrader said even before 2017, they will be increasing their total employee count. He said some of their current workers were not moving to the Farmington Hills location, so they will need to be replaced.

Chair Anhut thanked both Mr. Wasilenski and Mr. Schrader for their information and said that Ms. Oberoi would communicate with them regarding the outcome of the Special Economic Development Corporation meeting.

The Economic Development Corporation discussed the request for a personal property tax abatement of 50% for seven years; and the establishment of an Industrial Development District.

City Manager Brock said he felt it was a good investment for Farmington Hills.

Chair Anhut said it was an exploratory expedition. He said they were already in Farmington Hills, and it is a small amount being given by the City, but if they do produce 140 jobs, that would be a bonus. He stated that he had mixed emotions.

City Manager Brock said if they were asking for abatement on real personal property tax, his opinion would be different. Chair Anhut concurred.

Mr. Elliott said the company would be a long-term tenant.

Discussion ensued regarding the matter of the lease.

Mr. Sarafa said since they were owned by a private equity company, it could be sold at any time.

Discussion took place regarding the type of bio-tech products produced, and their heavy capital investment.

Discussion was held regarding the process of considering the request and it going before the City Council for consideration and or approval.

MOTION by HARTSOCK, support by ELLIOTT, that the Economic Development Corporation recommend to City Council the approval of a personal property tax abatement (P.A. 198) of 50% for seven years; and the establishment of an Industrial Development District, for CEP BioCoat, LLC.

ROLL CALL VOTE:

Anhut, nay  
Brock, aye  
Elliott, aye;  
Gatewood, aye  
Hartsock, aye  
Jacknow, aye  
Sarafa, aye

Motion carried 6-1-1-1, with Anhut opposed; Marcellino absent; and one vacancy.

TREASURER'S REPORT

Postponed until the next meeting.

Chair Anhut said the next Economic Development Corporation meeting was scheduled for September 17, 2014.

ADJOURNMENT

There being no further business, Chairman Anhut adjourned the meeting at 8:35 a.m.

Respectfully submitted, City Manager Steve Brock  
Secretary, Economic Development Corporation

cgray/pbs/shared/boards and commissions/edc/2014/ special meeting minutes/8-20-14