

Local Development Finance Authority (LDFA)
Minutes – October 18, 2018
Smartzone -2345 Meridian Street

1. Call to Order

The meeting was called to order at 3:02 pm by Vice Chair Hank with introductions.

2. Roll Call

Board members present: Craig Krouth Marjorie Hank Kristin Collins Dan Reattoir
 Tom Veum Fred Smith Fred Molnar

Smartzone Board members: Oliver Turner Jeff Holt

Other guests: Tracey Laitinen Kali Brosco Kimberly Muller

Absent: Gary Sharp

A motion was made by Krouth to excuse Sharp from the meeting. Support by Collins. Motion carried.

3. Agenda: Changes, Additions, or Deletions

None at this time.

4. Matters presented by the Public

None at this time.

5. & 6. Presentation by Fred Molnar, MEDC, regarding LDFA structure, duties, SSMart and Eric Becks

Molnar explained his position at MEDC and that he is responsible for overseeing the Smartzones. Molnar is here to assist with the change since Becks plans to resign from SSMart and noted there are 2 issues to work out.

1. There is a current grant with SSMart, the Gatekeeper Grant, and MEDC pays for salary and travel for an individual. This grant was designed to welcome entrepreneurs into the Smartzone and plug them into the local system as well as facilitate their progress. This grant has now been put on hold.
2. The current system we have between Becks, SSMart, and LDFA is not working. MEDC's agreement is with the LDFA, not SSMart of Becks or LSSU. The way this works across the State of MI is that the LDFA is responsible for the Smartzone and the responsibilities are to manage and have it function. LDFA can contract out the administration of the Smartzone programming. Ex: Ann Arbor Smartzone contracts with Ann Arbor Spark. Sterling Heights works with Oakland University.

Molnar reviewed the current agreement noting that at the time when LDFA moved forward with SSMart and LSSU it made sense. Molnar added that any changes in administration of the Smartzone would be reviewed by MEDC but ultimately it is the LDFA's decision, simply would need to notify MEDC of the new direction they plan to take. Smith added that this clarification was very helpful. Holt noted that the perception was that SSMart and the Smartzone Board was in charge of the LDFA and he was glad for the clarification. Molnar agreed that the LDFA needs to take steps to make our Smartzone successful. Turner added that the LDFA could contract

with another entity such as LSSU or another Smartzone. Krouth asked for clarification on Becks resignation to which Molnar explained that Becks had told him he was resigning from SSMart. Holt reported that Becks was no longer at LSSU and Krouth wanted to be clear that the two relationships, SSMart and LSSU, were separate issues. Molnar recapped the MEDC Smartzone quarterly meetings in Lansing and the conversation that he and Becks had regarding a forthcoming resignation from Becks. Collins asked for more clarification on Becks and SSMart as it seemed that they could operate independently of the LDFA and that issues arose when tax capture funding diminished. It was agreed that all agreements between the LDFA and SSMart would be reviewed prior to the next LDFA meeting.

Molnar explained that Smartzone and LDFA are synonymous. This has been confusing as SSMart is an independent company run by Becks that has a Smartzone Board. Smartzone and LDFA are tax capture districts. While not to confuse the situation more, but the building we operate in is also called the Smartzone. Molnar reiterated that the LDFA can terminate an agreement whenever it wants and hire a new administrator.

Reattoir proposed that the EDC formally operate the Smartzone moving forward. Molnar thought this was a possibility moving forward. Krouth again suggested doing some research prior to the next LDFA meeting. Krouth added that there had been no oversight in the management of SSMart and that the LDFA was only the fiduciary, which was confusing. Holt explained that SSMart was basically Becks. Turner added that SSMart was created as a separate entity. Collins requested for the Smartzone Board to determine their next steps. Holt recapped a meeting this summer reporting that the Smartzone Board was waiting for things to settle after Becks separation from LSSU to move forward but they realized that changes were likely forthcoming and that it didn't make sense to move forward with the current contract with SSMart. Turner summarized by saying that the current model has not been successful and that it is time for a change.

Krouth further discussed SSMart and open discussion was had on the Smartzone Board and how they may want to follow proper channels and vote on a new President. It was explained that SSMart is solely Becks and that Becks (SSmart) contracts his services to the LDFA. Muller added that she has been sorting out issues at the Product Development Center (PDC) and reiterated that Becks has separated from LSSU and there are now no ties to Becks.

Board seats on the LDFA were discussed with Krouth noting that specific stakeholders make up the membership following the Act. Molnar said that some changes were forthcoming and he would share those out prior to the next LDFA meeting to make sure we are compliant. Krouth reiterated that he wanted to ensure that we had no responsibility to SSMart moving forward.

Molnar recapped the original relationship with SSMart and its Smartzone Board and the PDC. When LSSU was brought in a partner they did add value and Molnar felt that the agreements were done in good faith. Collins agreed that it was the intent of all parties to work well together. Holt explained how the PDC and the Smartzone have not meshed as originally planned and that it wasn't a secret that the relationships had deteriorated.

Hank brought the members back together summarizing that the LDFA was presented as the financial arm and with special authorization from MEDC for SSMart to run the Smartzone programming. Hank agreed a document review was necessary to move forward. Molnar added that he cannot think of one Smartzone that doesn't hire out an entity to administer programming, but that the performance and reporting falls under the LDFA. Molnar recapped past lack of reporting from Becks.

Turner pulled up the SSMart-LDFA agreement signed back in 2010 and that it was most likely expired. Collins asked the EDC if they wished to operate the Smartzone program to which Laitinen replied that they had been for since 2016 with no additional revenue. Turner requested that the LDFA cancel their agreement with SSMart and then SSMart and its Smartzone Board can operate if they so choose, in a different capacity. Molnar concurred. Turner added that with the change in leadership the Gatekeeper Grant could be re-established at some point. Laitinen summarized by noting that there is no tax capture or projected revenue to operate the Smartzone programming at this point and in the near future so it is not feasible for anyone else to take it over. Molnar agreed and explained that MEDC and the LDFA could revisit the grant which would require a match, but that in-kind could be discussed.

Reattoir stressed the need to move forward, review pertinent documents and rely on facts instead of misstatements. Collins inquired about the support from LDFA that the EDC had received to operate the building. Laitinen replied that \$15,000 had been budgeted for utilities, but no programming.

A motion was made by Reattoir to schedule a meeting in the next 4-6 weeks to review existing documentation with SSMart and to potentially establish the Sault EDC as the administrator of the program until Dec 31, 2018. Support by Collins. Motion carried.

7. Approval of Minutes

A motion was made by Krouth to approve the minutes of April 26, 2018. Support by Smith. Motion carried.

8. Reappointment of Board members for a 4-year term to expire on 12.31.2022

A motion was made by Reattoir to approve the reappointment of Collins, Hank, Reattoir and Sharp for a 4-year term to expire on 12.31.2022. Support by Smith. Motion carried.

9. Finance Report

Collins brought an additional handout to the meeting and reported on revenue as of 9.30.18. Discussion of the Cascade Crossings tax tribunal will lower our projected revenue. Hank added that the case for Meijer will be moving forward as well in 2019 and will affect our tax capture negatively.

This analysis shows that excluding 2017 with its negative capture, we can reasonably expect to bring in \$23,300 or more in revenue this year. This is a little below the budgeted \$28,400, which was estimated with all MTT cases being lost by the City. LDFA distributions are based on a 'factor' which is generally established once at the beginning of the tax year. This factor is used as an estimate for distributions and any variance is resolved at settlement.

Absent any major adjustments it would remain the same through the collections cycle. Kali recalculated the LDFA factor on 10/17/18. Current BS&A LDFA capture report shows that tax capture revenue, net of the MTT refund which has been entered, is \$24,424. LDFA 9/30/18 revenue and expense report does not show the MTT refund of \$34,044.75 which will be journalized this month.

Taxes refunded are budgeted at just \$4,000, and so we know this account will be roughly \$30,000 over budget.

Additional support required to support debt service of the fund (over currently budgeted \$20,000) is estimated to be \$15,000. We will revisit any additional changes in revenue at our April 2019 meeting to see if additional adjustments are necessary.

A motion was made by Collins to approve the financial report as presented and request an additional \$15,000 from TIFA III. Support by Smith. Motion carried.

10. Status Reports

Holt recapped the Smartzone activity report included in the meeting packet, for the May to October 2018 time period. Collins questioned if funding from MEDC could support the clients in the Smartzone building. Holt noted that we did utilize Business Accelerator Funds through SSMart for the Osprey Technologies phase 3 power hook up which was just under \$5,000.

Laitinen briefly reviewed the 2017 report that was due to MEDC. Molnar added that the new reporting requirements will be released January 2019 as well as some potential changes in LDFA board structure. This will be added to our November meeting agenda.

11. Other Matters

Turner summarized the meeting noting good discussion on the path forward and that it will be interesting to see the partnership with LSSU and the direction that it takes and adding that additional Smartzones are eager to partner with us. Turner highlighted our unique assets such as Sault, Ontario and the Foreign Trade Zone.

Muller added that this was helpful in helping her sort out who to go adding that she has been working with the Chippewa Co. EDC and the EUP Advisory Board and there is more collaboration that could occur through the PDC and Business Engagement Center. Muller also brought up that oversight and accountability are key and that she is looking to formulate an advisory board for the PDC made up of potentially the EDC and professors with expertise. Ideally this group would meet quarterly.

Molnar went on to talk about the successes at the MTEC Smartzone in Houghton/Hancock noting their LDFA captures \$650k annually. Marilyn Clark, CEO of MTEC is retiring at the end of the year and she had talked to Molnar about her passion to support Smartzones in the U.P. and willingness to partner with us. Molnar said they are currently interviewing and hopes to have someone in place prior to her retirement.

12. Adjournment – Reattoir made the motion to adjourn at 4:11pm, support by Smith. Motion passed.

****A November meeting is being planned. Watch your email for a Doodle Poll.***