

**MEMORANDUM****DATE:** July 12, 2000**TO:** Michigan Economic Growth Authority**FROM:** James Donaldson, Vice President
Michigan Business Development**SUBJECT:** Briefing Memo – Forest Health Services Corp.**COMPANY NAME AND ADDRESS:**

Forest Health Services Corp.
24 Frank Lloyd Wright Drive, Lobby B, Level 4
P.O. Box 454
Ann Arbor, Michigan 48106

HISTORY OF COMPANY:

Forest Health Services Corp. was incorporated in 1992 and is a management company that provides a variety of services to specialty health care providers and other companies located throughout the United States. Forest Health is a wholly owned subsidiary of Chatham Capital Corporation, a holding company established in 1997. The company currently has 84 employees at their current headquarters in Ann Arbor, Michigan.

DESCRIPTION OF PROJECT:

Forest Health has been expanding rapidly and has outgrown its existing corporate headquarters facility. The company is seeking to invest in a new corporate headquarters for its entire executive and corporate support staff. The new headquarters will be located in either the former Oakwood Beyer Hospital in Ypsilanti, Michigan or in a new building in Sylvania, Ohio.

The proposed project would require an initial investment by the company of \$20.0 million, including \$7.8 million in land, building, and renovation costs and \$12.2 million in machinery and equipment costs. The company anticipates creating up to 488 new jobs at the facility by the end of 2003. Average weekly wages would be \$1,109 and the company would offer workers a benefit package totaling approximately 30 percent of wages.

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BENEFIT TO THE STATE:

According to the economic analysis done by the Michigan Economic Development Corporation using REMI software, we estimate this facility will generate a total of 633 jobs in the state by the year 2005. Total state government revenues through the year 2005, net of MEGA costs and adjusted for inflation, would be increased by \$7,380,000 (2000 dollars) due to the presence of this facility.

COST ANALYSIS:

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Ypsilanti and Sylvania, Ohio. Based on figures obtained from the company, the operational cost disadvantage for Forest Health Services Corp. to locate this expansion in Michigan for the initial ten years of the investment amounts to approximately \$11,798,500. In the last ten years of the analysis, Michigan has a cost advantage for the company, leading to a total twenty year cost gap of \$9.2 million.

The single factor in this differential is taxes, due to tax incentives offered in Ohio for the first ten years of the project. The Michigan Economic Development Corporation has reviewed these cost differentials and feel they are accurate.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide Forest Health Services Corp. a 100 percent abatement of the six-mill State Education Tax for a length of time to match the local property tax abatement. It is estimated that the value of this abatement will be \$85,608. In addition, the state will offer job training assistance of \$500 each for up to 488 net new jobs, or up to \$244,000.

The City of Ypsilanti will be providing the company with a 100 percent abatement of personal property taxes for a period of 5 years, estimated to be worth up to \$921,721.

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BUT FOR:

Forest Health Services Corp. was started in Ann Arbor and, all other things being equal, would like to remain in the Ann Arbor area. The company, however, has outgrown its current facility and must look for a new headquarters facility for existing staff, as well as the anticipated new hires. The former Oakwood Beyer Hospital building would actually cost more to renovate than building a new facility in Sylvania, Ohio. This, coupled with the fact that a more favorable tax situation exists in Ohio, makes it very difficult to keep this operation in Michigan. A MEGA tax credit is necessary to counterbalance the offer the company has received from Ohio.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 75 percent for up to 488 net new jobs for a period of five years.