



MEMORANDUM

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Date: June 15, 2010
To: Michigan Economic Growth Authority
From: Amy Deprez, Manager
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Subject: Briefing Memo – Gordon Food Service, Inc.
Standard (Look-Back) MEGA Credit

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COMPANY NAME

Gordon Food Service, Inc.
420 50th Street
Grand Rapids, Michigan 49501

HISTORY OF COMPANY

Gordon Food Service, Inc. ("GFS"), provides food service products and solutions to businesses and retail customers. The company was founded over a century ago as a butter-and-egg business. Over the years, GFS has been at the forefront of innovation in the food service industry, having introduced new operations, technologies, and training methods that have since been adopted in other organizations. Today, GFS is the largest family-owned broadline foodservice distributor in North America. Headquartered in Wyoming, Michigan, GFS has retail stores, distribution centers and warehouses throughout the United States and Canada.

GFS and its affiliated companies currently have 2,393 employees in Michigan, of which 273 are retail positions.

PROJECT DESCRIPTION

GFS plans to consolidate its Canadian back office support operations that are currently spread throughout Canada into one location. The project would consolidate the facilities as well as the jobs into a single location in either an existing GFS facility in Ontario, Canada or at the company's world headquarters campus in Wyoming, Kent County, Michigan.

GFS will construct a building on its campus in Wyoming to accommodate the growth of the consolidated Canadian operations. During the construction of the building, GFS will house the new employees in existing buildings within the campus. GFS will restructure its campus once the construction of the building is complete to increase efficiency and provide space for future growth.

GFS proposes to invest approximately \$24.2 million and create 173 jobs over the next five years as a result of this project. The average weekly wage for the newly created jobs will be \$879. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost.

The effect on other Michigan businesses in the same industry was taken into consideration when recommending the amount and length of this tax credit.

BENEFIT TO STATE

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will generate a total of 400 jobs in the state by the year 2015. Total state government revenues through the year 2015, net of MEGA costs, would be increased by \$6 million (current dollars) due to the presence of this facility.

BUSINESS CASE

GFS is also considering Ontario, Canada for this consolidation. GFS has excess capacity at an existing facility in Ontario. The Ontario facility could accommodate the employees for the first two years of the project before any modifications of the building would be necessary. The company also indicated property tax savings of over \$1.3 million in the first five years of operations if the consolidation were to occur in Ontario.

In addition to lease costs and property taxes, GFS will incur relocation costs for the employees that wish to transfer to Michigan and severance costs associated with terminating those who choose not to relocate, as well as recruitment of new employees. GFS estimates the cost of the relocation and recruitment to be approximately \$2 million.

The MEGA tax credit, along with other state and local incentives, will help offset the costs associated with this consolidation.

OTHER STATE AND LOCAL ASSISTANCE

The City of Wyoming is supportive of this project and will consider a Brownfield Plan which includes local reimbursement for eligible activities through tax increment financing under Public Act 381 of 1996. The city may also consider a 3 year property tax abatement under Public Act 328 of 1998.

In addition to the MEGA tax credit, the MEDC will also recommend to the MEGA Board approval of a large Brownfield MBT credit capped at \$2,525,000, as well as state reimbursement for eligible activities through tax increment financing under Public Act 381 of 1996. These will be considered by the MEGA Board at a later date.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent standard employment tax credit for 5 years for up to 173 net new employees in excess of the company's established base of 2,120, provided that the company creates and maintains 150 employees by the end of the third credit year, otherwise the remaining years will be forfeited.

A look-back period will be established as of 60 days prior to the execution of the Credit Agreement. Employees hired after the establishment of the look-back period will count as qualified new jobs provided that they meet all the requirements outlined in the MEGA Credit Agreement.