

SAULT STE. MARIE SMARTZONE AGREEMENT

This SmartZone Agreement (the "Agreement"), dated December 10, 2008, is between the Michigan Economic Development Corporation, the City of Sault Ste. Marie, Michigan, and the Local Development Finance Authority. In this Agreement, the MEDC, the City and the Authority sometimes may be referred to individually as a "Party" and collectively as "Parties."

RECITALS

- A. The Michigan Legislature enacted Public Act 248 of 2000, to amend 1986 PA 105 to promote the development of high technology businesses throughout the State of Michigan;
- B. The MEDC is authorized by Public Act 105 of 2008 to designate three additional certified technology parks ("SmartZones") within the State of Michigan by December 31, 2008;
- C. On May 22, 2008, the MEDC issued a request for proposals for SmartZone designation;
- D. On July 1, 2008, the City submitted a proposal to the MEDC requesting designation as a SmartZone of certain areas located within the City (the "Proposal");
- E. On December 1, 2008, the City adopted a resolution creating the Authority;
- F. The MEDC, the City and the Authority entered into productive discussions regarding the Proposal; and
- G. The MEDC, the City and the Authority desire to enter into this Agreement, as permitted under Section 12a(3) of the Act, to designate the Authority District as a SmartZone and to establish terms and conditions of the designation.

In consideration of the mutual covenants contained in this Agreement, the MEDC, the City and the Authority agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Act. "Act" means 1986 PA 105, as amended.

Section 1.02 Affiliated Parties. "Affiliated Parties" means public and private individuals, businesses and organizations with which the Local Representatives or the SmartZone may enter into letters of intent, memoranda of understanding, contractual agreements or other types of arrangements to provide, or induce opportunities for, support, market access, assistance or other types of direct or in-kind assistance for tenants of the Business Incubator or to the development of high technology activity within the SmartZone.

Section 1.03 Agreement. "Agreement" means this written Agreement.

Section 1.04 Agreement Date. "Agreement Date" means the first set forth above.

Section 1.05 Appendixes. "Appendixes" means the appendixes serially identified in this Agreement, attached to this Agreement and incorporated herein by reference.

Section 1.06 Authority. "Authority" means the Sault Ste. Marie Local Development Finance Authority.

Section 1.07 Authority District. "Authority District" means that area within the City described in the resolution establishing the Authority within which the Authority may exercise its powers.

Section 1.08 Business Incubator. "Business Incubator" means the facility or facilities identified in the Tax Increment Financing Plan (TIFP) and used in a manner provided by the TIFP and authorized the Act for a Business Incubator.

Section 1.09 Certified Technology Park. "Certified Technology Park" or "SmartZone" is the portion of the Authority district designated by agreement between the MEDC, a municipality and a local development and finance authority as permitted by Section 12a of the Act.

Section 1.10 City. "City" means the City of Sault Ste. Marie, Michigan.

Section 1.11 County. "County" means the County of Chippewa.

Section 1.12 Initial Taxable Value. "Initial Taxable Value" means the taxable value of that property identified in the Authority's TIFP as property as included within the Plan for purposes of determining tax increment revenues for the Authority.

Section 1.13 SmartZone. "Sault Ste. Marie SmartZone" means that area designated by Sections 2.01 and 4.01 of this Agreement as a SmartZone in which the Authority may

establish a Certified Technology Park.

Section 1.14 Local Representatives. "Local Representatives" means the City and the Authority.

Section 1.15 MEDC. "MEDC" means the Michigan Economic Development Corporation, a public body corporate created under section 28 of Article VII of the State Constitution of 1963 and the Urban Cooperation Act of 1967, 1967 PA 7, by interlocal agreement effective April 5, 1999 between participating local economic development corporations created under 1974 PA 338, MCL 125.1601 to 125.1636, and the Michigan Strategic Fund, or its successor as provided for in the Act.

Section 1.16 Operating Costs. "Operating Costs" means Business Incubator expenses, and other operational and planning costs authorized by the Act and Public Act 291 of 2000 including, but not limited to, executive management and other expenses directly related to the central administration of the Business Incubator; such as expenses for insurance, salaries, repairs and maintenance, marketing, supplies, and utilities.

Section 1.17 Public Facilities. "Public Facilities" means the public facilities described on Appendix A for which the Authority is authorized by this Agreement to use tax increment revenues.

Section 1.18 Ratification. "Ratification" means the document, attached to this Agreement as Appendix C, evidencing the State Treasurer's approval of the Authority's TIFP and of the capture by the Authority tax increment revenues authorized by the TIFP.

Section 1.19 Resolution. "Resolution" means the document creating the Authority and filed with the Michigan Secretary of State, a copy of which is attached to this Agreement Appendix C.

Section 1.20 School Taxes. "School Taxes" means the amounts levied by the State pursuant to the State Education Tax Act, Public Act 1993 PA 331, as amended, and operating levies of local and intermediate school districts.

Section 1.21 State. "State" means the State of Michigan.

Section 1.22 SmartZone. "SmartZone" or "Certified Technology Park" means the area established within an authority district as a certified technology park under Section 12a of the Act and Agreement between the MEDC, a municipality and a local development finance authority.

Section 1.23 SmartZone Plan. "SmartZone Plan" means the description of activities to be undertaken by the Authority in operation of the SmartZone.

Section 1.24 Statewide SmartZone Council. "Statewide SmartZone Council" means the SmartZone advisory group comprised of representatives of each SmartZone and the MEDC.

Section 1.25 Tax Increment Revenues. "Tax Increment Revenues" means that term as defined in the Act.

Section 1.26 Term. "Term" means the period beginning on the Agreement Date and ending on December 31, 2023, except as otherwise provided in Section 5.01 of this Agreement.

Section 1.27 TIFP. "TIFP" means the Tax Increment Financing Plan to be approved by the Authority and the City and to be reviewed by the MEDC and forwarded to Treasury.

Section 1.28 Treasury. "Treasury" means the State of Michigan Department of Treasury.

Section 1.29 University. "University" shall mean Lake Superior State University.

ARTICLE II RIGHTS AND OBLIGATIONS OF THE MEDC

Section 2.01 Designation of the Authority's SmartZone. The MEDC designates the Authority District, as described in Appendix A, as the area in which the Authority may establish one SmartZone.

Section 2.02 Marketing of the Authority's SmartZone by MEDC. The MEDC shall market the Sault Ste. Marie SmartZone as one of the Certified Technology Parks authorized under the Act. All marketing of the Sault Ste. Marie SmartZone by MEDC shall be consistent with the TIFP and the purposes and objectives of the Authority. It is understood that the marketing funds to be expended by the MEDC in fulfillment of its obligation under this Section 2.02 shall be determined by the MEDC.

Section 2.03 Role of the MEDC. The MEDC shall play no role in policy development or decision-making of the Authority including, but not limited to, the areas of zoning, acquisition and disposal of interests in real and personal property, and land development.

Section 2.04 No Approval of Other Tax Incentives. As described in the SmartZone Plan, the Authority may seek assistance in the form of other state incentives including, but not limited

to, brownfield redevelopment tax incentives, obsolete property redevelopment tax abatement, and other grants and loans to support business development. By signing this Agreement, the MEDC has not signified approval for these incentives, or opined on the Authority's eligibility for these incentives.

Section 2.05 Ratification by State Treasurer. The MEDC will use its best efforts to obtain Treasury ratification of the Sault Ste. Marie SmartZone and the TIFP.

ARTICLE III RIGHTS AND OBLIGATIONS OF THE LOCAL REPRESENTATIVES

Section 3.01 Authorized Capture and Use of Tax Increment Revenues.

(a) All Tax Increment Revenues received by the Authority from the SmartZone during the Term may be expended by the Authority for all purposes and in those amounts authorized under the Act and the TIFP. The Authority may capture the maximum amount of School Taxes allowed under the Act for purposes authorized by this Agreement and the TIFP for a period of fifteen (15) years for levies imposed on or after adoption of the TIFP. The MEDC shall conduct an annual review of the Authority's use and capture of Tax Increment Revenues, which shall be limited to assessment of consistency with the TIFP and the Act. In the event that the MEDC identifies one or more material inconsistencies, it shall notify Treasury and the Local Representatives of it and the Authority shall have the opportunity to respond in a manner consistent with Section 5.03(a) of this Agreement. Should the State Treasurer determine that the Authority has failed to perform as described by Section 5.03(a), then such failure shall constitute an Event of Default and the MEDC shall have the right to exercise one or more of the remedies provided for in Article V of this Agreement. Tax Increment Revenues shall be determined on the basis of an Initial Taxable Value authorized by the State Treasurer and pursuant to the TIFP and the Ratification.

(b) The Authority may enter into a contract with a Local Representative, an Affiliated Party, or both, to delegate, on behalf of the Authority, the responsibility of operating and planning the activities supported by the Authority, providing administrative services to the Authority, conducting an integrated marketing study, generating specific marketing plans, identifying methods of facilitating technology commercialization, and implementation of the integrated marketing program.

Section 3.02 Prohibited Uses of Tax Increment Revenues. Tax Increment Revenue proceeds shall not be used to fund the costs of direct subsidies, programs or services provided to or for tenants in the Business Incubator such as research stipends or grants, employee compensation subsidies, or grant proposal assistance.

Section 3.03 Local Representative Programs and Participation. The Local Representatives shall seek to develop and implement strategies to facilitate the commercialization of technologies in the Sault Ste. Marie SmartZone, as outlined in the SmartZone Plan, attached as Exhibit E.

Section 3.04 University Programs and Participation. The University will be a partner in developing and implementing strategies to facilitate the commercialization of technologies in the Sault Ste. Marie SmartZone, as the SmartZone Plan.

The Local Representatives shall develop and implement programs designed to foster the use of any business incubator developed by or in conjunction with the University with support of tax increment revenues and development of other high technology enterprises located within the SmartZone, such as:

- a) Provide expert small business development assistance to the partners.
- b) Conduct periodic business forums on commercialization resources for the faculty and regional entrepreneurs, with special promotion to the SmartZone.
- c) Provide a single point of contact to expedite the process of identifying and coordinating University resources with the Affiliated Parties.
- d) Coordinate access to the University's laboratories, facilities, information technology, libraries, and intellectual property.
- e) Facilitate access to the University's faculty, staff, and students with emphasis on actively engaging in collaboration with the SmartZone.
- f) Provide information on University technologies.
- g) Identify University-based/associated companies and establish priorities for providing coordinated assistance with SmartZone tenants.

Section 3.07 MEDC Membership on the Authority. The Local Representatives shall appoint a representative, selected by the MEDC, as an ex-officio, non voting member to the Authority.

Section 3.08 Reporting Requirements. The Authority shall provide, or cause to be provided to, MEDC a report twice a year containing the following information:

- (a) A summary of the Sault Ste. Marie SmartZone operations, including, but not limited to, number of businesses assisted, number of businesses locating or expanding in the SmartZone, number of jobs created/retained, number of on-going and completed research projects, number of on-going and completed commercialization projects, and amount of investments in the Sault Ste. Marie SmartZone, and similar information for activity of the business incubator.

- (b) The use of Tax Increment Financing funds during the prior fiscal year of the Authority.
- (c) The proposed use of Tax Increment Financing funds for the next fiscal year of the Authority.
- (d) Any modifications sought to this Agreement or to the TIFP.

Section 3.09 Use of SmartZone Service Mark. The Local Representatives shall use the SmartZone service mark in conformity with the specifications set forth in the document attached as Appendix F. All press releases, marketing and publicity material, webpages, signage, etc. shall contain the SmartZone service mark and MEDC logo.

Section 3.10 The Authority and the City shall not amend the TIFP without the approval of the State Treasurer. Copies of any and all proposed amendments shall be forwarded to the MEDC and Treasury.

Section 3.11 Statewide SmartZone Council. The Local Representatives agree to participate in the activities of the Statewide SmartZone Council, including, but not limited to, assisting the MEDC in developing a marketing plan for the SmartZone program.

ARTICLE IV INTELLECTUAL PROPERTY

Section 4.01 Service Mark. The MEDC owns the SmartZone service mark and grants a limited license to the City, the Authority, the University, and Sault Ste. Marie SmartZone, for use in accordance with guidelines established by the MEDC, attached as Appendix F. The MEDC retains the exclusive right to revoke the license provided by this Agreement, or the SmartZone pursuant to Section 5.03 of this Agreement.

ARTICLE V TERM, TERMINATION, AND DEFAULT

Section 5.01 Termination. This Agreement shall terminate by the first to occur of the following:

- (a) Expiration of the Term.
- (b) An action, other than one caused by an Event of Default by any of the following

means that voids, suspends, terminates or revokes the approval by MEDC of the Authority District as the area in which the Authority may establish a SmartZone or the authorization for the Authority to capture and use of Tax Increment Revenues for all purposes permitted under Section 3.01;

- (i) Court order;
- (ii) Any ruling, bulletin, order, administrative or executive decision of the State, State Tax Commission, any State official, or State commission, authority, body or employee with authority to make such determination or take such action; or
- (iii) State or federal legislative action.

(c) The involuntary dissolution or liquidation of the Authority.

(d) The voluntary termination of this Agreement by the MEDC and the Local Representatives. It is understood that the Parties shall not unreasonably withhold their consent to terminate this Agreement under this Section 5.01(d), if it should be in the best interest, under good business practice standards, to terminate this Agreement.

(e) Withdrawal from this Agreement by any Party pursuant to Section 5.06.

Section 5.02. Rights of the MEDC. The expiration of the Term shall not affect the rights of the MEDC in connection with its SmartZone service mark.

Section 5.03 Default.

(a) ~~An event of default under this Agreement ("Event of Default" or "Default") shall mean, whenever used in this Agreement, the failure by any of the Local Representatives to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement for a period of (45) days after written notice, specifying such failure and requesting that it be remedied, shall have been given by the party providing notice of Default to all other parties; provided, however, that if the failure is such that it can be corrected but not within such 45-day period, and corrective action is instituted within such period and diligently pursued until such failure is corrected, then such period shall be increased to such extent necessary to enable the party failing to observe or perform any covenant, condition or agreement to observe or perform such covenant, condition, undertaking or agreement through the exercise of due diligence. The MEDC is not bound by the period for cure described herein in the event of a failure by the Authority to comply with Section 3.01(a) of this Agreement.~~

(b) Except as provided in this Agreement upon the occurrence and during the

continuance of an Event of Default, any non-defaulting party may take whatever action at law or in equity as may appear necessary or desirable to enforce performance and observance of this Agreement.

(c) Subject to Section 5.04 of this Agreement, whenever an Event of Default is caused by the failure of any of the Local Representatives, the MEDC may exercise any one or more of the following remedies:

(i) Suspend or revoke of the SmartZone designation granted to the Sault Ste. Marie SmartZone or any portion thereof.

(ii) Cease to market, as otherwise agreed to by the MEDC under Section 2.02, or revoke permission to market under Section 3.10, Sault Ste. Marie SmartZone as a SmartZone. If the MEDC exercises this remedy, the Local Representatives may continue to market and operate SmartZone during the Term.

(iii) Suspend or revoke of the limited license granted under Section 4.01 of the use of the "SmartZone" service mark to any of the Local Representatives, or the Sault Ste. Marie SmartZone.

(d) Subject to section 5.04 of this Agreement, whenever an Event of Default is caused by a failure of the Authority under Section 3.01(a), Treasury shall have the right to suspend or revoke the capture of School Taxes, in whole or in part, to the extent that the School Taxes are not applied to satisfy existing outstanding obligations.

Section 5.04 Dispute Resolution. If a dispute arises under this Agreement, which cannot be resolved within the period for cure provided in Section 5.03(a), subject to the exception provided therein, before exercising any of the rights contained in Section 5.03(c), the Parties agree to first try to resolve the dispute with the help of a mutually agreed-upon mediator in Lansing, Michigan, prior to exercising any rights or remedies under Section 5.03. Any costs and fees other than attorney fees associated with the mediation shall be shared equally by the Parties. If the Parties cannot agree on the selection of a mediator within ten (10) calendar days, then the Parties shall ask the American Arbitration Association to appoint a mediator to serve them in resolving their dispute.

Section 5.05 Limitations upon Obligations and Remedies.

(a) The amendment, revocation or suspension by the State Treasurer of the ratification or any authorization conferred upon the Authority by Section 3.01 above, shall waive all obligations imposed upon a Local Representative under Sections 3.01 or 3.02 above.

(b) If the State Treasurer refuses, for any reason whatsoever, to approve the capture of Tax Increment Revenues attributable to School Taxes, revokes or suspends its approval of such capture in whole or in part, or requires reimbursement, for any reason, from a Local Representative in connection with the capture of Tax Increment Revenues attributable to School Taxes which the State Treasurer subsequently determines to be impermissible, the MEDC will have no liability to a Local Representative for damages caused by such action of the State Treasurer and this Agreement will not be construed to impose any liability upon or require the MEDC to repay any obligation or reimbursement.

(c) The authorization to use the MEDC's "SmartZone" service mark extended to the City, the Authority, and the University shall cease immediately upon termination of this Agreement or dissolution of the MEDC, without requiring any action by the MEDC.

Section 5.06 Withdrawal. Any Party to this Agreement shall have the right to withdraw from this Agreement if the City or the County fail to approve the TIFP by December 31, 2009.

ARTICLE VI MISCELLANEOUS

Section 6.01 Designation of MEDC Chief Executive Officer. The Chief Executive Officer of MEDC, or his designee, is designated as the authorized officer to make determinations and approvals on behalf of the MEDC related to the satisfaction of any condition imposed by this Agreement upon a Local Representative, the terms of any performance required by a Local Representative, or the terms of any agreement entered into by a Local Representative with another person or organization which is subject to MEDC approval.

Section 6.02 Entire Agreement. This Agreement, including all its Appendixes and Exhibits, sets forth the entire agreement between the parties and supersedes any and all prior agreements or understandings between them in any way related to the subject matter hereof. It is further understood and agreed that the terms and conditions herein are contractual and are not a mere recital and that there are no other agreements, understandings, contracts, or representations between the Parties in any way related to the subject matter hereof, except as expressly stated in this Agreement.

Section 6.03 No Presumption. This Agreement shall be construed without regard to any presumption or other rule requiring construction against the Party causing this Agreement to be drafted.

Section 6.04 Severability of Provisions. If any provision of this Agreement, or its

application to any Party or circumstance, is invalid or unenforceable, the remainder of this Agreement and the application of that provision to other Parties or circumstances is not affected but will be enforced to the extent permitted by law.

Section 6.05 Governing Law. This Agreement is made and entered into in the State of Michigan and shall in all respects be interpreted, enforced and governed under the laws of the State of Michigan without regard to the doctrines of conflict of laws.

Section 6.06 Captions. The captions, headings, and titles in this Agreement are intended for the convenience of the reader and not intended to have any substantive meaning or to be interpreted as part of this Agreement.

Section 6.07 Terminology. All terms and words used in this Agreement, regardless of the numbers or gender in which they are used, are deemed to include any other number and any other gender as the context may require.

Section 6.08 Cross-References. References in this Agreement to any Article include all sections, subsections, and paragraphs in the Article; references in this Agreement to any Section include all subsections and paragraphs in the Section.

Section 6.09 Jurisdiction and Venue. In the event of any disputes between the Parties over the meaning, interpretation, or implementation of the terms, covenants or conditions of this Agreement, the matter under dispute, unless resolved between the parties, shall be submitted to the courts of the State of Michigan.

Section 6.10 Amendment. The Agreement may be amended or an alternative form of the Agreement adopted only upon written agreement of the Parties.

Section 6.11 Independent Contractor. The Parties agree that at all times and for all purposes under the terms of this Agreement each Party's relationship to any other Party shall be that of an independent contractor. Each Party will be solely responsible for the acts of its own employees, agents, and servants. No liability, right, or benefit arising out of any employer/employee relationship, either express or implied, shall arise or accrue to any Party as a result of this Agreement.

Section 6.12 Counterpart Signatures. This Agreement may be signed in counterpart. The counterparts taken together shall constitute a single agreement.

Section 6.13 No Waiver. No waiver by MEDC or a Local Representative of any breach of obligations, agreements or covenants herein shall be a waiver of any subsequent breach of

any obligation, agreement or covenant, nor shall any forbearance by the MEDC or a Local Representative to seek a remedy for any breach by the another Party to this Agreement be a waiver of any rights or remedies with respect to such or any subsequent breach, nor shall any express waiver by the MEDC or a Local Representative be deemed to apply to any other existing or subsequent right to remedy any default by another party to this Agreement. No waiver by MEDC or a Local Representative of any default or breach by another party to this Agreement in the performance of any of the covenants or obligations under this Agreement be deemed to have been made by the MEDC or Local Representative unless contained in a writing executed by the waiving Party. The MEDC does not waive any immunity provided by law.

IN WITNESS WHEREOF, the Parties cause this Agreement to be executed by their duly authorized representatives as of the Agreement Date.

Witness:

[Signature]
John D. Boyer

CITY OF SAULT STE. MARIE

BY:

[Signature]

ITS:

CITY MANAGER

DATE:

DECEMBER 1, 2008

Witness:

[Signature]
[Signature]

SAULT STE. MARIE LOCAL
DEVELOPMENT FINANCE AUTHORITY

BY:

[Signature]

ITS:

CHAIRMAN

DATE:

12/8/08

**MICHIGAN ECONOMIC
DEVELOPMENT CORPORATION**

Witness:

Lynne E. Small

BY:

[Signature]

ITS:

President & Chief exec. officer

DATE:

12/16/08

APPENDIXES

- Appendix A** Description of the Authority District, Certified Technology Park and Public Facilities.
- Appendix B** Development & TIF Plan
- Appendix C** Ratification by State Treasurer
- Appendix D** Copy of Resolutions creating the Authority
- Appendix E** SmartZone Plan
- Appendix F** Service Mark Specifications
- Appendix G** Letters of Commitment from City of Sault Ste. Marie
Sault Ste. Marie EDC
Lake Superior State University

APPENDIX "A"

Description of Authority District, Certified Technology Park and Public Facilities

Description of Authority District and Certified Technology Park: The Sault Ste. Marie Local Development Authority District and the Certified Technology Park encompass all land within the boundaries of the SmartZone, defined as the City boundaries of the City of Sault Ste. Marie.

Description of Public Facilities: As a designated SmartZone and pursuant to the terms of the agreement, public facilities may be developed for any eligible property within the SmartZone, such public facilities as are specified in the approved Development and Tax Increment Plan. (Appendix "B")

APPENDIX "B"

Development and Tax Increment Plan

(to be provided later)

APPENDIX "C"

Ratification by State Treasurer

(to be provided later)

APPENDIX "D"
Copy of Resolution Creating the Sault Ste. Marie Local Development Finance Authority

City of Sault Ste. Marie
Chippewa County, Michigan

RESOLUTION ESTABLISHING A LOCAL DEVELOPMENT FINANCE AUTHORITY

WHEREAS, the City of Sault Ste. Marie is authorized by the provisions of PA 281 of 1986, as amended (MCL 125.2151 et seq) (the Local Development Financing Act) to create a local development finance authority in the City of Sault Ste. Marie to be known as the Local Development Finance Authority of the City of Sault Ste. Marie; and

WHEREAS, pursuant to PA 281, notice of a public hearing on the establishment of a local development finance authority was published in the Sault Evening News, a newspaper of general circulation in the City of Sault Ste. Marie, twice before the public hearing, such notices published not less than 20 and not more than 40 days before the date of the public hearing; and further, notices of said public hearing were mailed to all taxpayers of record in the proposed authority district; and further, notices were mailed to the governing bodies of each taxing jurisdiction levying taxes in such district: and

WHEREAS, a public hearing was conducted on December 1, 2008 on the establishment of a local development finance authority: and

WHEREAS, the City has received Resolutions of Appointment and Participation from the Sault Ste. Marie Area Public Schools, the Eastern Upper Peninsula Intermediate School District and the Chippewa County Board of Commissioners, expressing their respective determinations as to capture of their respective taxes.

NOW, THEREFORE, BE IT RESOLVED THAT:

a. Determination of Necessity: Purpose. The City Commission hereby determines that it is necessary for the public welfare of the City of Sault Ste. Marie to create a local development finance authority pursuant to PA 281 of 1986, as amended (MCL 125.2151 et seq) which shall operate to eliminate the conditions of unemployment, underemployment and joblessness and to promote economic growth in the City.

b. Creation of Authority. The City hereby creates a local development finance authority to be known as Local Development Finance Authority of the City of Sault Ste. Marie.

c. Designation of Authority District. The boundaries of the authority district are designated as being the entire City limits of the City of Sault Ste. Marie.

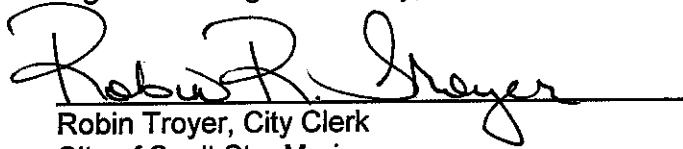
d. Powers of the Authority. The authority shall have all powers as set forth in PA 281 of 1986, as amended (MCL 125.2151 et seq) (the Local Development Financing Act).

e. Termination. Upon completion of its purposes, the authority may be dissolved.

f. Publication. This resolution shall be published once after its adoption in the *Sault Evening News*, a newspaper of general circulation in the City, and the City Clerk shall file a certified copy of the resolution with the Michigan Secretary of State after its adoption.

g. Effective Date. This resolution shall take immediate effect upon its publication.

I hereby certify that this is a true and exact copy of a Resolution adopted by the City of Sault Ste. Marie at a regular meeting on Monday, December 1, 2008.

A handwritten signature in black ink, appearing to read "Robin R. Troyer", is written over a solid horizontal line.

Robin Troyer, City Clerk
City of Sault Ste. Marie



SAULT STE. MARIE SMARTZONE

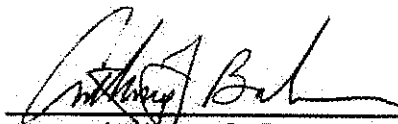
LEAD ORGANIZATION

City of Sault Ste. Marie, Michigan
325 Court Street
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Phone: 906.632.5705
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CONTACT INFORMATION

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Email: jhendricks@saultedc.com

AUTHORIZED BY
SAULT STE. MARIE CITY COMMISSION
June 16, 2008



Anthony G. Bosbous, Mayor



**Sault Ste. Marie SmartZone
CHECKLIST PAGE**

Business Plan

- ☒ a) **Executive Summary**
- ☒ b) **Financial Plan**
 - i. Financing Strategies
 - ii. Economic Impact to Local and State Economy
- ☒ c) **Experienced Management Team**
- ☒ d) **Technology Focus**
 - i. Size of Local Base of technology businesses
 - ii. Area Technology strengths
 - iii. Potential market for facilities to serve technology businesses
 - iv. Amount of supportable tech space
- ☒ e) **Clear Community Support**
 - i. Commitment letter from local government
 - ii. Commitment letter from partners
- ☒ f) **University Partnership**
 - i. Active involvement by University
 - ii. Tenant access to University facilities and amenities
- ☒ g) **Ability to Provide Support for Entrepreneurs and New and Small Businesses**
 - i. Business services and assistance
 - ii. Physical Incubator
 - iii. Special Access to Business Financing
- ☒ h) **Physical Location of SmartZone**
 - i. Site's location and size
 - ii. Ownership and development of incubator
 - iii. Detail of Incubator
 - iv. Information of site's zoning
 - v. Existing and proposed telecommunications infrastructure
 - vii. Availability of major infrastructure
 - viii. Summary of Environmental constraints
 - ix. Other impediments, if any.
 - x. Explanation of Proposed development
 - xi. Conceptual Site Plan
 - xii. Types of covenants and restrictions that will be enacted



Sault Ste. Marie SmartZone BUSINESS PLAN

Executive Summary

The City of Sault Ste. Marie, owner and operator of the State's first industrial incubator, and Lake Superior State University, recipient of a 21st Century Jobs Fund Grant to create an entrepreneurial Prototype Development Center, propose the creation of a SmartZone in Sault Ste. Marie.

Since 1973, the Soo Industrial Incubator has helped a steady stream of clients develop viable businesses. These are the heart of a small but necessary core of industries that support the region. More recently, LSSU created a Prototype Development Center (PDC) to assist entrepreneurs and small businesses develop new ideas into fully functional prototypes for further development, testing, or commercialization. The LSSU-PDC is a collaborative effort between the Michigan Economic Development Corporation (MEDC) and the Michigan Small Business and Technology Development Centers (MI-SBTDC) to strengthen Michigan's economy by enhancing small business and increasing industrial access to University resources. This SmartZone proposal seeks to combine the efforts of the PDC, the MI-SBTDC, and the Sault Ste. Marie Economic Development Corporation and its Soo Industrial Incubator to create a new "Breeder" or industrial accelerator, to seamlessly transition products and processes from inception to commercialization. This will be accomplished by providing a unique SmartZone where clients initially work with the PDC for product development and testing, move to the breeder for business plan and manufacturability analysis, and finally move into the Incubator for commercialization and business launch.

The PDC is unique in the state of Michigan, in that it provides a wide range of university based services to businesses and entrepreneurs for product development. While the PDC has been able to demonstrate design feasibility of new products through prototyping, and the Soo Industrial Incubator has been able to provide a range of incentives and facilities for companies that have proven production processes and markets, there is a gap between these two levels - a "design for manufacturing" or Breeder evaluation stage that will carry the prototype to sufficient detail so that all production inputs and processes can be articulated. Typically, these manufacturing issues include material selection, machining processes, final product quality desired, production cycle time, buy/build considerations, user interface, etc.

In addition to expert LSSU and SmartZone staff to guide this "design for manufacturing" function, the equipment necessary to demonstrate and test manufacturing methods of efficiently building a product on a ramped scale will be provided by LSSU. The nearly \$200,000 of equipment scheduled for the facility's initial use are rapid prototyping machines, 3D scanner, machining centers, electronic assembly systems, robotics, and other automated machines. Analysis will include decisions on effective deployment of modern manufacturing techniques, including automated equipment and robots (LSSU's area of expertise). This "teaching factory" will operate with hands on assistance by the LSSU-PDC and Business School staff. Upon demonstration of feasibility, manufacturing entities emerging from the Breeder will be given priority space in the Soo Industrial Incubator which provides sub-market lease rates to permit a firm to "right-size" its space before constructing its permanent facility.

The financing of the zone will require 15 years of tax increment capture, but on a downward sliding scale. This revenue stream will be supplemented by funding from the existing City Airport Tax Increment Authority (an Act 450 creation). This funding will assist in the operations of the SmartZone as well as financing for the Breeder building. In addition, the City will directly commit nearly 50% of the construction of the Breeder building.



Sault Ste. Marie SmartZone BUSINESS PLAN

Financial Plan

The Sault SmartZone will be developed as a public non-profit entity funded from several sources, including a new Local Development Finance Authority (LDFA) as provided in PA 281 of 1986. The entire City will be designated as the LDFA district, and the two City Industrial Parks, the Sault Industrial Park and the Sault Airport Industrial Park, will be designated as Certified Technology Parks within that district, pursuant to section 12a. of this legislation.

The City of Sault Ste. Marie, Lake Superior State University and the Sault Ste. Marie Economic Development Corporation will be the major partners in the SmartZone and LDFA, with the Upper Peninsula office of the Michigan Small Business and Technology Development Center and the Eastern Upper Peninsula Michigan Works providing significant support and assistance. Other local organizations including the Chippewa County EDC, the Eastern Upper Peninsula Planning and Development Commission and Northern Initiatives will also play important roles.

FINANCING STRATEGIES

The financial plan reflects a two-phase start-up period that will bring the zone to full operation. The existing capabilities of the LSSU Prototype Development Center and the Sault Ste. Marie EDC make this start-up period possible. The City has a long-established Act 450 (of 1980) Tax Increment Development Authority (the Airport TIFA) managed by the Sault Ste. Marie EDC acting as the TIFA Authority Board, that will greatly assist in providing some essential bridge financing until the new LDFA begins to generate tax increments. (With the earliest possible LDFA base year established at December 31, 2008, the first increment will not be distributed until July 2010!) A general timeline will be helpful in understanding the financial plan:

PHASE I

- | | |
|---------------------|--|
| ▪ November 1, 2008 | MEDC announcement of Zone |
| ▪ December 31, 2008 | Sault Ste. Marie LDFA created
Base Year established |
| ▪ March 1, 2009 | SmartZone Incorporated |
| ▪ April 1, 2009 | Airport TIFA amended
Interim Zone Director hired
Interim Zone offices secured
Bridge operational funding in place |
| ▪ May 1, 2009 | Technology "Breeder" Building design plans initiated |
| ▪ June 1, 2009 | Financing secured and finalized for Building |

PHASE II

- | | |
|---------------------|--------------------------------------|
| ▪ July 1, 2009 | Bids let for Building |
| ▪ August 1, 2009 | Bids awarded for building |
| ▪ December 31, 2009 | Building completed |
| ▪ January 2010 | SmartZone offices moves to "Breeder" |
| ▪ Spring 2010 | Permanent Director hired |

FULL OPERATION

- | | |
|-------------|----------------------------------|
| ▪ July 2010 | First LDFA increment distributed |
|-------------|----------------------------------|

During the Phase I and Phase II periods, the SmartZone will be funded and operated through the combined resources of the LSSU Prototype Development Center and the Sault Ste. Marie EDC. As will be noted on the attached Profit and Loss statement, the first 15 months of the Zone's operations will be solely funded through Airport TIFA funding and in-kind services from the Prototype Development Center. Following this start-up period, the Airport TIFA funding will continue to provide support to the zone for several years with an annual financial contribution.

As Full Operation begins in July 2010, the ongoing funding for the Zone will come from the LDFA (along with the above-noted Airport TIFA funds), and with an increasing fee, license and rent/lease income stream. At full SmartZone maturation in 2025, the Zone is planned to be self-supporting through the fee, license and rent/lease structure.

The development of the Technology Breeder building will be undertaken by the City and the Sault Ste. Marie EDC as a key element of the SmartZone. The building is planned as a 20,000 square foot building, and it will be constructed on a lot in the Sault Ste. Marie Air Industrial Park at an approximate cost of \$1,000,000. This building will be financed by \$415,000 in City funds generated by the sale of a City-owned spec. building and set-aside funds from Industrial land sales over the years. The remaining \$600,000 would be financed by a bond issued by the LDFA (Local Development Finance Authority), with average annual payments of \$55,000 over 15 years.

The attached chart "Sault Ste. Marie SmartZone - Tax Increment Projections LDFA" provides detail regarding the estimated tax capture over the 15 year permitted capture period. The top chart shows the background increases and tax increments based on a declining school capture (50% for the first 5 years, then 40% for the next five years, and finally, 30% for the last five years). The bottom chart provides an estimate of additional tax increments that would be added to this background growth based on the creation of one new 20,000 square foot plant with a total of \$3,000,000 capital investment every four years resulting from the incubation of new firms coming from the SmartZone. (This pattern of one new firm every four years is considered a realistic but conservative estimate of what the Zone will help create.) The sum of both the Background and additional increments are shown on the following page.

The attached table, "Sault Ste. Marie SmartZone - Profit and Loss Projections," incorporates the summary projected LDFA tax increments over the 15 year tax capture period. The Income categories also reflect the City commitment of the \$415,000 for the construction of the new Breeder building, as well as the City Tax Increment Authority's annual contributions beginning in the spring of 2009. Beginning in the July 2010-June 2011 fiscal year, the Zone will start to generate fees for the "breeding" or accelerating activities. One project is projected that year. In the following year, there are projected to be three projects generating fees; the next year five projects, then six and seven in the next two years. Beginning in July 2011, we are estimating that part of the space in the building will be used for "Incubator" lease space (the step after successful "breeding" has taken place, and where a company can lease space). The Incubating space is based on the same subsidized rents used by the EDC in the Soo Industrial Incubator at \$3.65/square foot (utilities included). Finally, a developing income stream coming from Licenses resulting from the SmartZone will play a growing financial role in the support of the Zone.

Sault Ste. Marie SmartZone - LDFA Income Summary

Fiscal Year Funds Available	Background Captured Tax Increment Revenues	Additional new Zone Induced LDFA Revenue	TOTAL LDFA Tax Increment Capture
2008-2009	\$0	\$0	\$0
2009-2010	\$0	\$0	\$0
2010-2011	\$75,000	\$0	\$75,000
2011-2012	\$140,500	\$0	\$140,500
2012-2013	\$207,310	\$18,750	\$226,060
2013-2014	\$275,456	\$19,125	\$294,581
2014-2015	\$344,965	\$19,508	\$364,473
2015-2016	\$332,692	\$15,918	\$348,610
2016-2017	\$390,546	\$31,236	\$421,782
2017-2018	\$449,556	\$31,861	\$481,418
2018-2019	\$509,748	\$32,498	\$542,246
2019-2020	\$571,143	\$33,148	\$604,291
2020-2021	\$475,324	\$36,609	\$511,933
2021-2022	\$523,231	\$37,341	\$560,571
2022-2023	\$572,095	\$38,088	\$610,183
2023-2024	\$621,937	\$38,849	\$660,786
2024-2025	\$672,776	\$50,876	\$723,652

On the Expense side, three subcategories highlight the distinct aspects of the zone: 1) the ongoing Zone Administration costs, 2) the Building Operation costs, and 3) the Capital expenses of establishing the new Breeder building and improvements to the Soo Industrial Incubator.

The Zone Administration costs address the management and administration of the zone activities. The projections reflect a contract with the Prototype Development Center for zone management early on before any LDFA funds are available, and would start in April 2009, and extend one year to April 2010, at which time a full-time zone Manager will be hired. In 2012, a second position will be added to the payroll. Normal office, supplies, etc. are provided in the expense detail. Of note, the Zone will contract with the Prototype Development Center for technical support for projects, and with the LSSU Business School for marketing and business planning for the emerging companies and products. Finally, as funding permits, the Zone will acquire specific equipment as needed for the unique needs of the companies and products using the breeder. Grants will be solicited in the early years for the equipment needs to help bridge the financial gap.

Ongoing Building Expenses reflect the normal operating costs of a 20,000 sf facility. The building will be constructed with the maximum use of LEED principles. Line item costs reflect a 30-year understanding of building costs experienced by the EDC in its management of the Soo Industrial Incubator - a similar sized building. Finally, the capital costs of construction of the new Breeder building are identified in the last sub-section of the P&L statement. Bond payments are expected to begin during FY 2010-2011, and will gradually increase from approximately \$40,000/year to \$70,000 at year 15. Allowance is also made in this for improvements to the Soo industrial Incubator in the 2015-2025 time frames, as that facility will be playing a role in the ultimate birth of new manufacturers emerging from the zone.

As prescribed in the legislation, LDFA funds would be used only for SmartZone management and staffing expenses, including marketing and recruitment expenses, and for public infrastructure expenses - the building costs (payment of bonds) and additional equipment for the building, and capital improvements and modernization of the 36 year-old Soo Industrial Incubator Building.

The Profit and Loss Projections fairly reflect the cash flow projections of the facility. Noted at the bottom of the projections is the statement of fund balance at the end of each fiscal year.

There are six tax increments districts in the City: the Airport Property Area (the site of the Air-Industrial Park, and a creation of the Tax Increment Financing Authority); two separate Tax Increment Districts created within the Downtown Development Authority, and three Brownfield Redevelopment Authority Plans. There will be no conflicts with any of these districts - all of the noted tax increment districts are capturing only local tax increments. The LDFA is proposing to capture only a portion of school tax increments, thus there is no conflict. Should any future BRA plans propose to capture school funds, the LDFA would have first priority of the tax capture to the point in time the BRA plan is adopted, and the BRA would then capture the increment above that level.

With the capitalization of the Breeder addressed through the LDFA and the City, the ongoing operational cost of the facility will be able to be maintained by into the future beyond the end of the LDFA. (The Sault EDC has a 36-year history of operating the Soo Industrial Incubator in a self-supporting manner without external subsidy.) Following the end of the 15 year LDFA period, the SmartZone will need to achieve sustainability. While projections as to Income and Expenses that far on the horizon will have a great deal of uncertainty, we expect that an ongoing zone operation can be sustained in the \$360,000 range. Estimated income and expenses are shown below:

SUSTAINING INCOME-EXPENSE

	<u>Annual Post 2025</u>
INCOME	
Service Fees	\$150,000
Rents/Leases	60,000
License Fees	100,000
Other (in-kind, etc.)	<u>50,000</u>
TOTAL INCOME	\$360,000
EXPENSES	
Zone Administration	\$300,000
Building Operations	<u>60,000</u>
TOTAL EXPENSES	\$360,000

Over the years, both LSSU and the City and its EDC will continue to apply for appropriate grants that may assist the Zone, but the basic Zone operations should be self-sustaining without relying on grant programs. There may or may not be the need for future financial operational funds, depending on the success of the Zone's ability to achieve the proposed fee and license streams. The Airport TIFA may be a possible backup source for some administration funds in the future, if needed, and if the TIFA plan is extended appropriately in the future.

Projects coming into the SmartZone will generally start with the LSSU Prototype Development Center (PDC). This center was recently established at Lake Superior State University and provides industries, small businesses, and entrepreneurs with timely and affordable resources to move products, projects, and processes from inception up through the prototype stage. The Center utilizes full-time staff, faculty, and students to address a wide variety of pre-production and pre-commercialization issues. As PDC staff members have worked with clients there have been several occasions where additional services beyond the prototype have been requested. These are generally requests dealing with issues of small production runs, buy/build evaluations, and business/marketing plan support. In order to address these requests and further support Michigan's economy, the "breeder" manufacturing facility within the Sault Sainte Marie SmartZone will be essential. Since PDC operations began in November of 2007 there have been well over thirty client projects that have been evaluated. A number of these projects are in the prototype process and several will soon be ready for the production step. Some of these are from Sault Ste. Marie and Chippewa County existing manufacturers, some are from existing downstate corporations, and others are from entrepreneurs from throughout the State and country. Since the PDC is to be an on-going self sustaining resource at LSSU, the continuous flow of projects will provide a base of projects for the "breeder" facility.

The SmartZone will be working very closely with the Prototype Center in recruitment and attraction, and will be able to leverage LSSU's well known robotics program and the companies that have hired the graduates coming from this program. The projections, as noted above, reflect a conservative number of fee-based Breeder tenants that will grow over the years to perhaps seven by FY 2014-2015. At the same time, the zone will be initiating programs to organize and harness the university's potential for harnessing and licensing new technologies.

ECONOMIC IMPACT TO LOCAL AND STATE ECONOMY

The SmartZone is expected to create a minimum of 230 direct jobs and another 390 indirect jobs in the community (620). A minimum of four 20,000 square foot manufacturing facilities will be created, at a pace of one new plant every four years. The first facility is projected during FY 2011-12, with the resulting new taxes paid in FY 2012-13. Over the subsequent thirteen year period three additional plants of similar size will be established, most likely in the Air Industrial Park near the Breeder. Based on the Sault Ste. Marie EDC's past experience, each plant would likely achieve an average of 55 employees.

Over the thirteen year period, a total of \$6,783,000 in new taxable value would be added to the City tax rolls, and more than \$2,500,000 in new property taxes would be generated. Since it is expected that the new facilities would be sited in the Air Industrial Park, the new local revenues would be captured for the existing Tax Increment District (some of which would be recycled back into the SmartZone). Some of the school taxes would be captured by the LDFA, but nearly \$750,000 would be generated in new non-captured school taxes (local, ISD and SET). The attached "Sault Ste. Marie SmartZone – Tax Impact" table summarizes the tax implications of the projected new growth.

The additional benefits that will accrue to the community as a result of the Zone are significant. While the community is starting to experience some increased interest in new business and manufacturing, the presence of the SmartZone will add a major impetus and a reason to select Sault Ste. Marie over another community in another State that doesn't have this resource. It is well known that Upper Peninsula communities have a somewhat more difficult time in promoting development due to their distance from markets. Endemic high unemployment rates and community stress are difficult to overcome. With the recent

emergence of the LSSU Prototype Development Center, a truly unique entity in the State, the community has a significance opportunity to establish itself as primary destination for breeding new technology and companies. The Zone has the ability to complete the link between the Prototype Development Center and Incubator with this "design for manufacturing" breeder facility.

With the State of Michigan still rebounding from an over-reliance on the automobile manufacturing industry, this SmartZone addresses a prime Michigan goal of diversifying the economy. While there are well-organized sectors concentrations around the State, the small nature of the Upper Peninsula manufacturing base requires a broadly flexible and responsive approach to new technology and new initiatives. The Prototype Development Center and the SmartZone, while focused on electro and mechanical systems, with a strong robotic capacity, the center and the zone will flexible and responsive to all initiatives and development concepts that arise. Partnerships with other State SmartZones for specific projects, especially the Michigan Tech Enterprise SmartZone, will be undertaken.

The SmartZone will complete a missing ingredient in the Sault Ste. Marie economic development portfolio. The Economic Development Corporation operates two City Industrial Parks for the City – both fully-serviced, markets the City-owned industrial land at greatly subsidized rates, operates a 36-year old Industrial Incubator that has graduated several firms into the City Industrial Parks, operates a Foreign Trade Zone, has developed the local airport and the surrounding Air Industrial Park including creation of a Tax Increment Development Authority for that purpose , and created a Brownfield Redevelopment Authority and three BRA plans. In partnership with Michigan Works!, the Michigan Small Business and Technology Development Center, the Downtown Development Authority and the Sault Area Chamber of Commerce, the EDC also initiated the *Sault New Venture Alliance*, an effort to establish the mechanisms for assisting entrepreneurship in the community. With the development of the SmartZone, the entrepreneurship center will neatly fit into the SmartZone's larger mandate, and give tangible meaning and expression to the products that are likely to come out of the entrepreneurship effort.

Sault Ste. Marie SmartZone - Tax Increment Projections LDFA

Calculation of Background Tax Increment Capture

Assessment Year Ending	Current Taxable Value*	Initial Assess Value	Captured Taxable Value	Total School Tax Rate	50% School Rate	40% School Rate	30% School Rate	Captured Tax Increment Revenues	Fiscal Year Funds Available
2008	\$256,000,000								2009-2010
2009	\$262,000,000	\$256,000,000	\$6,000,000	0.0250000	0.0125000			\$75,000	2010-2011
2010	\$267,240,000	\$256,000,000	\$11,240,000	0.0250000	0.0125000			\$140,500	2011-2012
2011	\$272,584,800	\$256,000,000	\$16,584,800	0.0250000	0.0125000			\$207,310	2012-2013
2012	\$278,036,496	\$256,000,000	\$22,036,496	0.0250000	0.0125000			\$275,456	2013-2014
2013	\$283,597,226	\$256,000,000	\$27,597,226	0.0250000	0.0125000			\$344,965	2014-2015
2014	\$289,269,170	\$256,000,000	\$33,269,170	0.0250000		0.0100000		\$332,692	2015-2016
2015	\$295,054,554	\$256,000,000	\$39,054,554	0.0250000		0.0100000		\$390,546	2016-2017
2016	\$300,955,645	\$256,000,000	\$44,955,645	0.0250000		0.0100000		\$449,556	2017-2018
2017	\$306,974,758	\$256,000,000	\$50,974,758	0.0250000		0.0100000		\$509,748	2018-2019
2018	\$313,114,253	\$256,000,000	\$57,114,253	0.0250000		0.0100000		\$571,143	2019-2020
2019	\$319,376,538	\$256,000,000	\$63,376,538	0.0250000			0.0075000	\$475,324	2020-2021
2020	\$325,764,069	\$256,000,000	\$69,764,069	0.0250000			0.0075000	\$523,231	2021-2022
2021	\$332,279,350	\$256,000,000	\$76,279,350	0.0250000			0.0075000	\$572,095	2022-2023
2022	\$338,924,937	\$256,000,000	\$82,924,937	0.0250000			0.0075000	\$621,937	2023-2024
2023	\$345,703,436	\$256,000,000	\$89,703,436	0.0250000			0.0075000	\$672,776	2024-2025

* Current taxable value column reflects estimates based on 2006 total taxable of \$268,788,438 and 2007 total taxable of \$276,948,748 discounted to allow for reduction of personal property values. Estimates are inflated at 2% year

Additional Tax Increment Revenues Induced by SmartZone in LDFA

Assessment Year Ending	New Mfgr in Zone Market Value	New Mfgr in Zone Taxable Value	Cumulative Additional Taxable Value	Total New Taxes (56 mills)	TIFA (450)** Captured (31 mills)	School Taxes	Non-captured School mills	LDFA* Captured mills	Fiscal Year Funds Available
2008									2009-2010
2009									2010-2011
2010									2011-2012
2011	\$3,000,000	\$1,500,000	\$1,500,000	\$84,000	\$46,500	\$37,500	\$18,750	\$18,750	2012-2013
2012			\$1,530,000	\$85,680	\$47,430	\$38,250	\$19,125	\$19,125	2013-2014
2013			\$1,560,600	\$87,394	\$48,379	\$39,015	\$19,508	\$19,508	2014-2015
2014			\$1,591,812	\$89,141	\$49,346	\$39,795	\$23,877	\$15,918	2015-2016
2015	\$3,000,000	\$1,500,000	\$3,123,648	\$174,924	\$96,833	\$78,091	\$46,855	\$31,236	2016-2017
2016			\$3,186,121	\$178,423	\$98,770	\$79,653	\$47,792	\$31,861	2017-2018
2017			\$3,249,844	\$181,991	\$100,745	\$81,246	\$48,748	\$32,498	2018-2019
2018			\$3,314,841	\$185,631	\$102,760	\$82,871	\$49,723	\$33,148	2019-2020
2019	\$3,000,000	\$1,500,000	\$4,881,137	\$273,344	\$151,315	\$122,028	\$85,420	\$36,609	2020-2021
2020			\$4,978,760	\$278,811	\$154,342	\$124,469	\$87,128	\$37,341	2021-2022
2021			\$5,078,335	\$284,387	\$157,428	\$126,958	\$88,871	\$38,088	2022-2023
2022			\$5,179,902	\$290,075	\$160,577	\$129,498	\$90,648	\$38,849	2023-2024
2023	\$3,000,000	\$1,500,000	\$6,783,500	\$379,876	\$210,289	\$169,588	\$118,711	\$50,876	2024-2025

* LDFA captured mills reflects the 50% - 40% - 30% declining capture noted in above table

** The additional development will also increase tax increments captured by existing Act 450 TIFA district

June 2008

Sault Ste. Marie SmartZone - Profit and Loss Projections

	Pre-LDFA Revenue		First 5 Years of LDFA				5 Year		5 Year	
	April-09 June-09	July-08 June-10	July-10 June-11	July-11 June-12	June-12 July-13	July-13 June-14	July-14 June-15	July-15 June-20	July-20 June-25	
INCOME										
City Of Sault Ste. Marie	\$0	\$415,000	\$0	\$75,000	\$0	\$0	\$0	\$0	\$0	
Airport TIFA	\$20,000	\$100,000	\$160,000	\$140,500	\$226,060	\$294,581	\$30,000	\$30,000	\$0	
LDFA	\$0	\$0	\$75,000	\$12,000	\$38,000	\$72,000	\$84,000	\$480,000	\$3,067,125	
Fees	\$0	\$0	\$0	\$22,000	\$24,000	\$28,000	\$28,000	\$130,000	\$480,000	
Leases/Rents	\$0	\$0	\$0	\$20,000	\$40,000	\$50,000	\$50,000	\$300,000	\$135,000	
Licenses	\$0	\$0	\$2,000	\$3,000	\$3,000	\$4,000	\$4,000	\$20,000	\$250,000	
Interest	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$20,000	\$300,000	
Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$25,000	
INCOME TOTAL	\$20,000	\$515,000	\$249,000	\$298,500	\$383,060	\$476,581	\$528,473	\$3,218,347	\$4,007,125	
EXPENSES										
ZONE ADMINISTRATION										
Salaries/Wages	\$0	\$20,000	\$90,000	\$93,000	\$125,000	\$130,000	\$135,000	\$750,000	\$1,000,000	
Fringes-payroll exp	\$0	\$9,000	\$40,500	\$42,000	\$57,000	\$58,000	\$61,000	\$340,000	\$450,000	
Supplies (office)	\$0	\$300	\$1,200	\$1,300	\$1,400	\$1,500	\$1,600	\$9,000	\$10,000	
Phone	\$0	\$300	\$1,200	\$1,200	\$1,200	\$1,200	\$1,400	\$7,500	\$9,000	
Broadband	\$0	\$300	\$1,200	\$1,200	\$1,200	\$1,200	\$1,400	\$7,500	\$9,000	
Travel	\$0	\$2,000	\$8,000	\$10,000	\$10,000	\$10,000	\$12,000	\$80,000	\$75,000	
Dues and Subscriptions	\$0	\$400	\$2,000	\$2,000	\$2,000	\$2,000	\$2,400	\$12,500	\$14,000	
Contracted Services	\$0	\$3,000	\$5,000	\$5,000	\$7,000	\$8,000	\$9,000	\$50,000	\$65,000	
Accounting-Legal	\$0	\$2,000	\$8,000	\$24,000	\$40,000	\$48,000	\$56,000	\$280,000	\$320,000	
ProtoDevCenter-tech	\$12,000	\$38,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
ProtoDevCenter-adm	\$0	\$1,000	\$4,000	\$12,000	\$20,000	\$24,000	\$28,000	\$140,000	\$180,000	
Business School	\$0	\$200	\$800	\$700	\$800	\$900	\$1,000	\$6,000	\$8,000	
Other	\$0	\$700	\$3,000	\$3,000	\$3,000	\$3,000	\$3,600	\$19,000	\$20,000	
Insurance	\$0	\$2,000	\$8,000	\$10,000	\$10,000	\$10,000	\$12,000	\$60,000	\$75,000	
Marketing	\$0	\$0	\$0	\$10,000	\$10,000	\$10,000	\$10,000	\$50,000	\$60,000	
Machinery-Equipment	\$0	\$0	\$0	\$10,000	\$10,000	\$80,000	\$100,000	\$500,000	\$600,000	
Misc and Other	\$0	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$5,000	\$5,000	
Administration Sub Total	\$12,000	\$78,200	\$173,700	\$216,400	\$289,600	\$378,800	\$425,400	\$2,246,500	\$2,820,000	
BUILDING EXPENSES										
Supplies	NA	\$200	\$400	\$400	\$500	\$500	\$500	\$3,000	\$4,000	
Contracted Service	NA	\$2,400	\$4,800	\$4,800	\$4,800	\$4,800	\$4,800	\$25,000	\$30,000	
Bldg. Management	NA	\$600	\$1,400	\$1,400	\$1,500	\$1,600	\$1,600	\$10,000	\$11,000	
Snow clearing	NA	\$800	\$800	\$900	\$900	\$1,000	\$1,200	\$6,500	\$7,000	
Waste Disposal	NA	\$1,000	\$2,000	\$2,000	\$2,200	\$2,200	\$2,400	\$12,500	\$14,000	
Janitorial	NA	\$800	\$800	\$800	\$800	\$800	\$800	\$4,000	\$4,000	
Misc.	NA	\$2,400	\$2,400	\$2,500	\$2,500	\$2,600	\$2,800	\$15,000	\$16,000	
Insurance	NA	\$400	\$1,200	\$1,200	\$1,400	\$1,600	\$1,800	\$9,000	\$10,000	
Maintenance-Repair	NA	\$6,000	\$14,000	\$15,000	\$16,000	\$17,000	\$18,000	\$100,000	\$110,000	
Utilities	NA	\$3,000	\$6,000	\$6,500	\$7,000	\$7,500	\$8,000	\$40,000	\$45,000	
Gas-Heat	NA	\$1,200	\$1,200	\$1,200	\$1,500	\$1,600	\$1,600	\$10,000	\$11,000	
Electric	NA	\$18,800	\$34,800	\$36,700	\$38,900	\$41,000	\$44,000	\$235,000	\$303,000	
Water-Sewer	NA	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Building Operation Expenses	\$0	\$415,000	\$40,000	\$40,000	\$45,000	\$45,000	\$45,000	\$275,000	\$335,000	
Breeder Building construction	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$300,000	\$300,000	
Breeder Bond payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$575,000	\$635,000	
Soo Incubator Improvements	\$0	\$415,000	\$40,000	\$40,000	\$45,000	\$45,000	\$45,000	\$3,058,500	\$3,768,000	
Building Construction Expenses	\$0	\$415,000	\$40,000	\$40,000	\$45,000	\$45,000	\$45,000	\$575,000	\$635,000	
EXPENSES TOTAL	\$12,000	\$511,800	\$248,500	\$293,100	\$373,500	\$464,800	\$514,400	\$3,058,500	\$3,768,000	
INCOME/EXPENSE										
Fund Balance-end of FY	\$8,000	\$11,200	\$11,700	\$15,100	\$24,860	\$36,441	\$50,514	\$212,361	\$461,486	

Sault Ste. Marie SmartZone - Tax Impact

Assessment Year Ending	Note	New Market Value	New Taxable Value	Cumulative New Taxable	Total Taxes at 56 mills	Captured in TIFA Local Taxes at 31 mills	Non-captured School mills
2008							
2009							
2010							
2011	NEW Mfgr	\$3,000,000	\$1,500,000	\$1,500,000	\$84,000	\$46,500	\$18,750
2012				\$1,530,000	\$85,680	\$47,430	\$19,125
2013				\$1,560,600	\$87,394	\$48,379	\$19,508
2014				\$1,591,812	\$89,141	\$49,346	\$23,877
2015	NEW Mfgr	\$3,000,000	\$1,500,000	\$3,123,648	\$174,924	\$96,833	\$46,855
2016				\$3,186,121	\$178,423	\$98,770	\$47,792
2017				\$3,249,844	\$181,991	\$100,745	\$48,748
2018				\$3,314,841	\$185,631	\$102,760	\$49,723
2019	NEW Mfgr	\$3,000,000	\$1,500,000	\$4,881,137	\$273,344	\$151,315	\$85,420
2020				\$4,978,760	\$278,811	\$154,342	\$87,128
2021				\$5,078,335	\$284,387	\$157,428	\$88,871
2022				\$5,179,902	\$290,075	\$160,577	\$90,648
2023	NEW Mfgr	\$3,000,000	\$1,500,000	\$6,783,500	\$379,876	\$210,289	\$118,711
					\$2,573,676	\$1,424,714	\$745,155



Sault Ste. Marie SmartZone BUSINESS PLAN

Experienced Management Team

The Sault SmartZone will be established as a separate non-profit corporation that will work very closely with LSSU's Prototype Development Center, the LSSU School of Engineering & Technology, the LSSU School of Business, Entrepreneurial and Legal Studies, the MI-SBTDC and the City's Economic Development Corporation. The SmartZone will be governed by a board of directors representing not only these involved and local stakeholders, but will also include technical, entrepreneurial, financial and corporate interests that can provide important guidance to the zone. The zone will be managed by a Director who will have experience and background in entrepreneurial development and technology business assistance, and a background in helping firms in the translating of intellectual property into finished products. The Director will have experience in incubator management.

The SmartZone will be primarily funded by the new Sault Ste. Marie LDFA that will be created to support the zone. The City and its EDC will assist the SmartZone in the creation of the Breeder building and then in the day-to-day management of the facility. In addition, funding support will be provided through the Airport Tax Increment Authority, and the Sault Ste. Marie EDC will assist in the provision of Incubator Space in the Soo Industrial Incubator as new products are commercialized out of the Breeder.

Most importantly, the SmartZone will have a tightly-linked relationship with the LSSU Prototype Development Center, and will utilize the Center's unique expertise in the commercialization of the prototyped products through the new Breeder and the administrative and management services that will be needed to support the commercialization process.

Because it will take a minimum of 18 months before the first funds arise from the LDFA, the Financial Plan (as noted previously) provides for interim financial support from the EDC and Tax Increment Authority. This will permit the SmartZone to begin operation through a management contract with the PDC beginning in April 2009. Eric Becks, the Engineering Products Manager of the PDC, will be the interim SmartZone Director. Becks has over 20 years of entrepreneurial experience in the creation of corporations and startup product lines, implementation of distributed accounting systems, and the setup of information technology infrastructure. His resume is attached. Then, beginning in April 2010, a full time Director will be hired. While we are unable to identify the candidate at this time due to confidentiality concerns, his sanitized resume is attached.

Finally, there will be continued assistance from the Sault Ste. Marie EDC and its director as the LDFA, the SmartZone and the Breeder building are created. The director, Jim Hendricks, has over 40 years experience in economic development in three states and two foreign countries including TIFA creation, industrial promotion, incubator management, plant siting, infrastructure development, and financial packaging. He has a full understanding of Michigan State grants and incentive programs, as well as historical experience with economic policy, resource exploitation, infrastructure development and government structure planning for an emerging Micronesian island nation and Sarawak, Malaysia. The Sault Ste. Marie Economic Development Corporation was awarded the first place Diversification Achievement Award – Rural Economic Development Partner by the MEDC in 2007.

Interim Director (Eric Becks)

Academic Qualifications/Honors

BS (1976) & MS (1981) Electrical Engineering/System Science, Michigan State University
Honor Societies Tau Beta Pi (all engineering) and Eta Kappa Nu (Electrical Engineering)

Work Experience

- 2007-present Engineering Projects Manager – Prototype Development Center
LSSU, 850 W. Easterday, Sault Ste. Marie, MI 49783
Duties: Make presentations to government and economic development agencies. Interact with various agencies making and accepting client referrals. Review potential projects with clients then assign resources; develop timelines, budgets and proposals. Design website and marketing materials. Develop policies and documents. Teach engineering courses.
- 2005-2007 V. P. Engineering/Cofounder GxT, Inc., Cheboygan, MI 49721
Design automotive test equipment with embedded processors. All facets of design and programming. Corporate IT maintenance. Corporate treasurer.
- 1987-2005 President & VP Engineering/Cofounder Ferret Instr., Inc., Cheboygan, MI 49721
Awards: Products that I designed received the Motor Magazine "Top 20 Tools" awards in 1998, 2000, 2002 and 2003 along with a Professional Tool & Equipment News "Innovation Award".
Technical Duties: Designed diagnostic automotive test equipment hardware and software. Managed engineering department. Directed conversion from through hole manufacturing to surface mount robotic manufacturing. Defined and oversaw automation from schematic capture files and circuit board CAD files to generate SMT robot control files. Managed CE certification of products.
Corporate Duties: President. Oversaw accounting department. Served as primary contact with accounting firms for tax and CPA reports. Interacted with bankers and attorneys. Developed department and corporate budgets. Assisted in setting of wage policy. Set up accounting software, bookkeeping policies and account structure. Enhanced commercial accounting package to implement standard cost system. Worked with attorneys on prospectus for private stock offering and Leveraged Buy Out.
- 1981-1987 Manager of Engineering, Coats Diagnostic Ops., Chicago Pneumatic, Bensenville, IL
Directed engineering group that designed service bay diagnostic computers and computer based emissions analyzer for various state certification programs. Developed base designs and directed the work of engineers, programmers, technicians, draftsmen and support staff delivering end products to specifications of customer and government. Represented company in Equipment and Tool Institute. Primary interface with consulting firms participating in the projects. UL and California Bureau of Automotive Repair certifications. Implemented measurement driven diagnostics to give localized vehicle fault messages.
- 1977-1980 Senior Project Engineer, Fox Valley Instruments, Div Hennessy Industries, CP Tool,
Took leave from Masters program to design a family of handheld automotive test equipment. Involved in mechanical and electronic aspects of product development. Coordinated with manufacturing personnel and designed circuitry and custom switches to simplify the manufacturing process and reduce overall product cost.

Community Involvement

- 1997-present Cheboygan Area Schools board member: Trustee (97-98) Treasurer (98-99) President (99-08)
Committees: Finance, Buildings&Grounds, Professional Negotiating, Tenure
The school board is an elected body overseeing the operations of an over \$16M operation. Also involved in the oversight of large bond issues associated with a new Middle School building, expansion and renovation of High School building, and renovations of four elementary buildings. Recent years have required careful budgeting to deliver the best possible educational program with declining state resources.

Full Time Director
(Name withheld due to confidentiality concerns)*

EXPERIENCE

- * 14 years experience in a variety of business and technology fields including several years' direct experience with incubator management and operation with services, facilities and associated responsibilities
- * Direct experience in business and economic development projects with corporations, government and universities
- * Experience with high-tech business consulting, programs and services
- * Trained in patents, marketing research, mergers & acquisitions, pricing, SBIRs, funding, leadership, grant writing
- * Background and capabilities in software system development, computer protection and security

Background work experience including:

- * Assisting small companies with business consulting to start and expand sustainable businesses
- * Working with city, state and private organizations for business and economic development
- * Recruiting, coordinating and directing technical, marketing, operations, finance and supporting teams
- * Creating actionable plans based on industry and market research, analysis and organizational planning
- * Developing processes, plans, proposals, presentations and training with communication at all levels
- * Developed programs and budget to provide business assistance to high-tech companies
- * Led planning, development and launch of the new technology programs
- * Consulted businesses on strategic planning, business development and management aspects
- * Developed and presented seminars for businesses on pricing, forecasting and leadership
- * Preparation of tenant leases, management of facilities, marketing and planning
- * Extensive writing/editing for proposals, advertising, press releases, state reports, grants, business plans; prepared financial models, proposals and contracts for new and expanded business
- * Prepared management research reports with recommendations to address opportunities and threats
- * Researched industry and marketplace to develop target plans and improve sales penetration
- * Managed third-party alliances in order to add partners' offerings to the sales portfolio
- * Managed planning and administration of a software business with customers in 64 countries
- * Prepared financial forecasts, managed budget and researched and reported monthly variances

EDUCATION

Master of Business Administration (MBA)
Bachelor of Science – Business Administration
Systems Engineer Development

* NOTE: Abbreviated and sanitized resume of anticipated candidate for the Director position



Sault Ste. Marie SmartZone BUSINESS PLAN

Technology Focus

The Sault SmartZone will focus on the "design for manufacturing" stage that will carry a prototype to sufficient detail and feasibility that will enable mass production. A technology "Breeder" building will be developed by the City to help accomplish this and initial equipment use will be provided by LSSU. The zone will act as the bridge between prototype and full commercialization. As a significant partner in the SmartZone, the LSSU Prototype Development Center (PDC) has already established a strong collaboration with the Michigan Small Business and Technology Development Centers (MI-SBTDC). This collaboration allows clients easy access to a wide range of University based prototype development services while the MI-SBTDC provides business plan and financial guidance.

The nearby industrial base of the proposed zone currently has injection-molded plastics, precision machined surgical tools, precision bearings and electronics manufacturers. These factories, while functioning on their own, will benefit from the availability of LSSU – PDC resources. The PDC has performed engineering services for two of these companies already, providing precision machining, CNC programming, and custom Rapid Prototype plastic parts. The location of a SmartZone in Sault Sainte Marie has a broader impact on the area as well, in that the nearest current SmartZone is over 200 miles away. Several of the existing PDC projects have an electronic function. The addition of robotic surface mount technology electronic circuit board assembly equipment will provide the opportunity for Sault Ste. Marie and regional businesses to obtain training and initial production runs of circuit boards for their products. Typically such services are located out of state or off-shore. The Breeder facility will permit developing experience with the equipment and will enable Sault Ste. Marie businesses to ramp into production prior to investment in the equipment. The business resources of LSSU School of Business, Entrepreneurial and Legal Studies will make it possible for the startups to establish their business infrastructure prior to moving to the incubator facility.

Another aspect of local industry is their reliance on automation in order to remain competitive. The proposed SmartZone will provide those industries easy access to LSSU's robotics and automation center; a \$1,000,000 facility with over 12 industrial robots and a variety of automated equipment. Since LSSU is one of only two public universities in the nation to provide a robotics option for its students, the opportunity for regional businesses to utilize the facility, the faculty, and its students is fantastic. In fact nearly all of LSSU's past interactions with local businesses have dealt with automated issues to improve production capabilities. With a Breeder facility, this service will be greatly enhanced.



The resources of LSSU beyond the PDC engineering focus include the marketing, accounting and management assistance from the Business, Entrepreneurial and Legal Studies faculty and students. The physical and biological sciences resources of LSSU may be needed for certain types of businesses also.

The nascent Eastern UP Regional Skills Alliance is developing interactions between the members of the business community and also with educational providers. These interactions will result in a stronger support structure. The career tech centers at Sault Area Skills Center and Bay Mills Community College will be able to address the skilled labor needs of these businesses while the LSSU engineering and manufacturing degree programs provide professional and technical labor needed as these businesses mature into and beyond the Soo Industrial Incubator.

The potential market for the breeder and incubator facilities derives from several areas: 1) spin-offs from existing SSM businesses, 2) extensions from LSSU engineering senior design projects, 3) projects drawn from the LSSU PDC client base, 4) the anticipated spin-off businesses from LSSU faculty and student Intellectual Property and 5) referrals of entrepreneurs from the established Region 1 MI-SBTDC and similar government agencies.

The PDC has already worked with clients who have developed new businesses after leaving established area companies. This occurs when engineers or managers from an existing company develop an idea that is not in the business plan of their current employer. An example might be an executive working for a bulk materials company that devises a commercial application for the material that the company's business model does not support.

In addition, historically, LSSU senior engineering design projects have frequently provided a proof of feasibility, but by definition these typically fall short of commercialization. Such projects can go on to the PDC for "design for manufacture" activity with the intent to commercialize. These projects are occasionally homeless in the sense that the inventor wishes to commercialize the product but has no existing company or vested interest in a particular location. For example a 2007-08 senior project was a medical device and the inventor, a surgeon in New Mexico, is interested in commercializing the patented device, he has no interest in manufacturing it or running a factory himself. The client's objective is to have the product built so that the client can sell it to hospitals and physical therapy centers. This would be an opportunity to form a Sault Ste. Marie company to build the product.

The scope of many PDC projects is to prove feasibility or develop a prototype. These will frequently need the additional steps provided by the "breeder" to become viable products. An example client has defined a data collection project using off-the-shelf data acquisition equipment. The phase 2 goal is a custom commercially viable product ready for manufacture. The second phase would require a custom computer based electronic design, ready for manufacture that collects into a single device all the data acquisition circuits needed for this particular process control system.

As faculty and students engage in the entrepreneurial projects through PDC and SmartZone activities, new products, methods and systems will evolve. Typically research and development on one product or process will provide insights that apply to unrelated products or processes. These will present opportunities for the faculty and students to establish companies for commercialization of this Intellectual Property. The 'breeder' will provide both the inspiration for and the resources required to bring the ideas to market.

State and federal agencies such as the Michigan Small Business and Technology Development Center provide consultation services to factories and inventors. In the course of these consultations new product ideas in search of support are proposed. These clients will benefit from the resources of the PDC and SmartZone breeder facilities. Similarly these relationships fostered by the SmartZone will provide the additional resources that the agencies

can bring to the clients.

Under the "design for manufacturing" stage that the SmartZone will address, the Breeder building will provide the initial Tech space. The building is intended as 20,000 square feet. There will be additional smaller space available from time to time at LSSU. Following commercialization of a product, the Soo Industrial Incubator will provide space in the Incubator at a rate of \$2.60 per square foot (net3) or \$3.65 utilities included, as appropriate. A copy of the Incubator policies is attached.

SOO INDUSTRIAL INCUBATOR BUILDING OPERATING PROCEDURES AND POLICIES Abbreviated

PURPOSE

The Industrial Incubator exists for the purpose of providing space for new and expanding firms to be able to easily establish manufacturing or research operations with a minimum of risks, a reduction of overhead and start-up costs and with no long-term commitment. The goal is for a firm to "incubate" out of the building and into the firm's own facility. The incubator allows for a new industry, or an expanded industry, to be able to move into the building on a tryout basis to see if it can succeed in the community, and, in the process, to find the right size for its operation in a permanent facility.

SCREENING

Potential Incubator firms will be screened as to viability utilizing normal EDC protocols, specifically the "Industrial Development Checklist." This information includes financial statements, pro-forma projections, audits, market surveys, copies of submissions made to lenders, etc. as well as a written prospectus.

CONDITION OF OCCUPANCY

After a firm has passed a successful screening, a lease would be prepared that would set forth terms of building space occupancy. The client would be required to satisfy the conditions of the Sault Industrial Park Use Covenants and would be required to restore to original configuration and condition any space leased to the firm at the end of the lease period.

LEASE RATES

Rates for tenancy in the Industrial Incubator will be set from time to time by the EDC, with the EDC establishing a Basic Lease Rate. The Basic Lease rate will be a subsidized rate that will be extended to manufacturing firms. Rates effective January 2005 are as follows:

	<u>Warehouse</u>	<u>Office Area</u>
Industrial Rate (net ³)	2.60 sf	-
Industrial Rate-including utilities	3.65 sf	-
Industrial Rate-including utilities	-	3.85 sf

ADDITIONAL CHARGES

Under normal conditions, common building utilities will be pro-rated as service charges to building tenants on the basis of square foot occupancy. Special heating, lighting, water, air exchange and other specialized client needs, however, will be subject to special arrangements so as to fairly apply such unusual charges to the client.

TERM OF OCCUPANCY and TERMINATION

Consistent with the purpose of the Industrial Incubator to provide sufficient time for a new firm to begin operations in Sault Ste. Marie, and grow to a state of reasonable viability to be able to incubate from the building, and based on historical tenancy of major industrial firms in the Incubator over the past 25 years, the basic lease term will be as follows:



Sault Ste. Marie SmartZone BUSINESS PLAN

Clear Community Support

The significant commitment of funds for the development of the Breeder by the City of Sault Ste. Marie, along with the strong ongoing support of the City EDC and City Tax Increment Financing Authority demonstrate the strong community commitment to this project.

The City has committed \$415,000 towards the SmartZone project as a partial payment of the new Breeder building. The City is also providing the land for the facility in the new Air Industrial Park. The City has an extensive track record of strongly supporting new manufacturing facilities in the community, and expects to extend this support to entities that graduate from the Breeder into the Soo Industrial Incubator or their own new facilities with Tax Abatements or other available incentives as may exist from time to time.

The Sault Ste. Marie Economic Development Corporation is strongly supporting the development of the SmartZone. The EDC has a 30-year history of promoting and supporting economic development in the community, and has helped to establish an entrepreneurial initiative in the community over the last 18 months. The EDC feels that the SmartZone is perfect entity to exploit the potential of product entrepreneurialism through the partnership with the LSSU Prototype Development Center. The EDC will play a key role in all of the procedural and administrative steps in establishing the LDFA and the incorporation of the SmartZone.

In addition, acting under its role as the Board of Directors of the Tax Increment Financing Authority, the EDC-TIFA will be committing at least \$355,000 in early year tax increment funds for support of the SmartZone. This will be essential to initiating the zone at the earliest time.

In addition to the direct City and City EDC involvement, there is strong support from the Upper Peninsula office of the Michigan Small Business and Technology Development Center, the local Michigan Works agency and the Sault Area Chamber of Commerce. We are especially gratified to have the support of Senator Jason Allen (letter included).

We have also been advised that Representative Stupak as well as U.S. Senators Levin and Stabenow are very supportive of the SmartZone, and may be communicating separately.



City of Sault Ste. Marie, Michigan

325 COURT STREET
SAULT STE. MARIE, MI 49783

Phone: 906/632-5705

Fax: 906/635-5606

Anthony G. Bosbous
Mayor

June 27, 2008

Michigan Economic Development Corporation
300 North Washington Square, 2nd Floor
Lansing, Michigan 48913

RE: Establishment of a SmartZone in Sault Ste. Marie

Dear sirs:

The City of Sault Ste. Marie is strongly committed to the establishment of a SmartZone in Sault Ste. Marie. The City Commission formally authorized this SmartZone application at its meeting of June 16, 2008, and committed \$415,000 in funding toward this project. These funds will be committed to the construction of the new accelerator building to be built at the City's Air Industrial Park on a City-owned fully-serviced parcel.

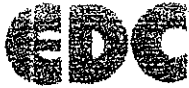
I will insure that all City departments and agencies provide whatever additional support and assistance may be necessary to insure the zone's success. The Economic Development Corporation and its Tax Increment Financing Authority especially will be providing specific financial resources and management assistance. As that board makes recommendations to the City on matters requiring City Commission action, I will insure that the Commission has all the information needed to provide full support for any actions that will assist the SmartZone.

The community is very excited and enthusiastic about the potential the SmartZone brings to the area. The City has always worked closely with Lake Superior State University, and this SmartZone provides the opportunity for a full and enduring partnership that will do nothing but good for the community.

The City is committed to making the SmartZone a success.

Sincerely,

Anthony G. Bosbous, Mayor



ECONOMIC DEVELOPMENT CORPORATION
1301 Easterday West, Industrial Park
Sault Ste. Marie, Michigan 49783
Phone (906) 635-9131 • Fax (906) 635-1999

James F. Hendricks, Executive Director
email: jhendric@bizserve.com

June 27, 2008

Michigan Economic Development Corporation
300 North Washington Square, 2nd Floor
Lansing, Michigan 48913

RE: Sault Ste. Marie SmartZone

Dear sirs:

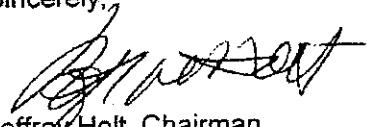
The Sault Ste. Marie Economic Development Corporation strongly supports the creation of a SmartZone in Sault Ste. Marie. The EDC, and its predecessor organizations, have been engaged in economic development activities for nearly 40 years in this community. During that time, we have played key roles in establishing a Foreign Trade Zone, an Industrial Incubator Building, two fully-serviced industrial parks, a Tax Increment Financing Authority and a Brownfield Redevelopment Authority. These efforts have helped significantly in creating primary jobs in this community despite our distance from major markets.

With the recent establishment of the Lake Superior State University Prototype Development Center, the community now has the capacity to undertake an accelerated effort to create new wealth and jobs through the spinning out of innovations, products and companies from this unique center.

The Sault Ste. Marie EDC Board acts as the Tax Increment Financing Authority Board. Between the two organizations, we are able to bring both financial resources, and management and professional expertise to this effort. As you will note in the proposal, we will be able to commit at least \$355,000 in tax increment funds to the zone in the critical early start up months before new LDFA funds are generated. This will permit the zone to begin operating much earlier than otherwise possible. In addition, the City has committed \$415,000 in funds toward the construction of the new Breeder building. The EDC, with its 36 years of managing the existing Soo Industrial Incubator without outside funding, will bring this same expertise to the management of the new building. These are only two examples of how the partnership between the City, the EDC and LSSU will help to insure this is a successful project.

The EDC and its Tax Increment Financing Authority are strongly supportive of the creation of a SmartZone in Sault Ste. Marie, and will undertake whatever efforts are necessary to insure its success.

Sincerely,


Jeffrey Holt, Chairman
Sault Ste. Marie EDC

Sincerely,


Thomas Veum, Chairman
Tax Increment Financing Authority



SENATOR JASON ALLEN

37TH DISTRICT
P.O. BOX 30036
LANSING, MICHIGAN 48909-7536
PHONE: (517) 373-2413
TOLL-FREE: (866) 525-5637
FAX: (517) 373-5144
senjallen@senate.mi.gov
www.senate.mi.gov/allen

**THE SENATE
STATE OF MICHIGAN
MAJORITY WHIP**

July 1, 2008

COMMITTEES:

COMMERCE AND TOURISM, CHAIR
SENIOR CITIZENS AND
VETERANS AFFAIRS, CHAIR
ECONOMIC DEVELOPMENT AND
REGULATORY REFORM
HEALTH POLICY
LOCAL, URBAN AND STATE AFFAIRS
LEGISLATIVE COUNCIL

Jim Epolito, President
Michigan Economic Development Corporation
300 North Washington Square, 2nd Floor
Lansing, Michigan 48913

Dear Mr. Epolito:

I am writing to support the implementation of a SmartZone for the city of Sault Ste. Marie. There are currently twelve other SmartZones in the state of Michigan that promote technological advancement, job growth, and resource collaborations between numerous institutions. All but one of these are located in the Lower Peninsula, so it is imperative that this region is provided the opportunity to expand its economy through a new SmartZone.

As I'm sure you know, I am always looking for ways to create jobs, promote economic development, and bring greater prosperity to not only my district, but the state as a whole. I have no doubt that this SmartZone will fulfill all of these requirements. Over 8,000 jobs have been created by other SmartZones in the state, while public and private investments have exceeded \$1 billion. In regards to this particular Zone, it is projected to bring over 600 new jobs to the area and generate over \$2.5 million in property taxes over a thirteen year period. Moreover, it establishes a concrete link between Lake Superior State University and the community by using the Prototype Development Center on campus as its starting point for new projects. It will also create a new incubator building that acts as a technology accelerator and four new manufacturing facilities over the course of sixteen years. In an economy that has struggled in so many areas, it would not be advisable to pass up on such a wonderful opportunity for expansion.

I once again reiterate my support for the establishment of a SmartZone in Sault Ste. Marie. The widespread economic benefits that will result from this Zone will strengthen this community and encourage further technological growth in the future. Proper funds from the city and the Local Development Finance Authority have already been secured, so the next step is to finalize these plans at the state level. The creation of a SmartZone in Sault Ste. Marie is vital.

Thank you in advance for your consideration. Should you have any additional questions, please do not hesitate to contact me or Joe Agostinelli in my office.

Best wishes,

Jason Allen
State Senator
37th District

JA:rf



Sault Ste. Marie SmartZone BUSINESS PLAN

University Partnership

Lake Superior State University (LSSU) will be extremely involved in the operation and initial management of the SmartZone. As a SmartZone partner, the LSSU Prototype Development Center (PDC), in its first six months of operations, has evaluated over 30 client projects, several of which are coming close to carrying the prototype to the next "design for manufacturing" level. Moving these into the proposed Breeder and onto commercialization will have an immediate positive effect on the region. Not only will LSSU provide direct subsidized technical and management services to the SmartZone and the Breeder, the University will provide nearly \$200,000 of equipment for the SmartZone and Breeder use during the start-up phase. LSSU will continue to support the SmartZone over the initial 15 years by providing more than \$300,000 in continued administrative, student work-study, faculty involvement, equipment and in kind support. Finally, LSSU will utilize the zone and its staff to help in its internal assessment in encouraging and accelerating the licensing and commercialization of concepts generated from its own ranks.

In addition to the technical assistance provided through the Prototype Development Center, the School of Business, Entrepreneurialism and Legal Studies will play a direct role in assisting firms in marketing and business plan development linked with the Breeder.

As noted above, the University will be involved with the SmartZone at the initial startup stage, with management of the zone to be performed under contract with the LSSU Prototype Development Center. This is to be done to allow activities prior to the zone cash flow being sufficient to support a full time manager. This is possible by virtue of having an entrepreneur on the PDC, Eric Becks, who has experience in engineering, product development and the various business aspects of creating startup corporations.

By participation in the SmartZone Breeder facility and through the PDC, clients will have access to the LSSU facilities and resources. Specifically the manufacturing equipment to be located in the Breeder is inherently available to the tenants during the course of the commercialization process. Additionally the CNC machining equipment, robotics lab, rapid prototyping facility, other engineering and manufacturing technology labs, the engineering and business faculty and students assigned to the project are all available to the client. It is anticipated that some projects will benefit from areas other than business and engineering, in these cases the other departments of the university such as the physical and biological sciences can be made available through the PDC and SmartZone.

The roles and responsibilities of LSSU will be primarily executed through the Prototype Development Center. These activities include interfacing with clients, entering into project agreements, securing and allocating LSSU facilities and equipment, coordinating faculty and students with client and project requirements, and project management including costs and timelines. The University will maintain the equipment and have common consumables available for use in the projects.

Typically the client is an inventor who is familiar with the product concept area and perhaps its use or market but does not possess the engineering knowledge or resources to bring the idea to market, set up a business, manage a factory or develop efficient manufacturing

processes. Through the PDC engineers and LSSU faculty, design for manufacture activities, manufacturing process definition, business infrastructure, training in manufacturing techniques will provide the clients with the information and technology to complete commercialization of the products.

The various paths that projects can be received into the SmartZone are described above. Once within the breeder facility and PDC base, it will be a natural transition into the Sault Sainte Marie EDC Incubator. One of the intangibles is the influence of the SmartZone back on the university. The focus of faculty and students will shift with frequent involvement in entrepreneurial projects. Opportunities for LSSU engineering graduates will be presented when working on senior projects that transition to the SmartZone. The MTU SmartZone has had situations where students have transitioned to entrepreneurs after developing a viable product in the senior design project process. Likewise, the other pathways will also provide opportunities to establish new businesses in SSM because of the experiences with the SmartZone.

The PDC is structured in such a way that engineering services, equipment, offices, etc can be delivered at a cost to the client below commercial market value. By providing the PDC services at a reduced cost and providing the use of university equipment located in the breeder facility, LSSU plays a key financial role in the success of this SmartZone collaboration. In addition, LSSU intangibles such as office space, meeting rooms, food service availability, computer usage, high-speed internet access and phones are among the amenities provided by the university that are typically not accounted for at market value to the client.

The SmartZone clients will also have opportunity to enroll in regularly scheduled classes with the possibility of specialized classes or seminars tailored to special needs. Surface Mount Technology (SMT) equipment will be unique to the area and provide for electronic circuit board assembly. The wide variety of CNC and manual machining equipment, robots, factory automation along with faculty and staff experience provide the capabilities needed to commercialize a broad spectrum of products. Special computer services like 3D CAD modeling and rapid prototyping, Finite Element Analysis, fluids and flow modeling are unique in the area and without LSSU participation would have to be sought outside the region and at a significantly higher cost to the client.

Although less than one-year old, the PDC is actively engaged with the Sault Sainte Marie EDC, the MEDC, MI-SBTDC, Eastern UP Regional Skills Alliance and various other agencies. PDC staff have hosted, or presented at, numerous meetings all across the state in an effort to make its services known and effectively inform businesses and entrepreneurs of new technologies and processes that are available. This has resulted in an unexpected high number of inquiries, and subsequent clients, indicating a statewide need for a facility to speed the advance of intellectual property to commercialization. The proposed Sault SmartZone will provide all the necessary aspects to do so.

LAKE SUPERIOR STATE UNIVERSITY

June 30, 2008

Michigan Economic Development Corporation
300 N Washington Square, 2nd Floor
Lansing, MI 48913

Greetings,

It is with considerable enthusiasm that I provide this letter of support for this SmartZone application made by the City of Sault Sainte Marie in partnership with Lake Superior State University (LSSU). As President of LSSU I can assure you that LSSU strongly supports this proposal.

The University and the City of Sault Ste. Marie have a long history of partnership. The City created the first incubator in the State of Michigan and the University, thanks to a 21st Century grant now has one of the state's only Prototype Development Centers. This combination suggest that the City of Sault Ste. Marie in combination with LSSU are uniquely qualified to benefit from, and contribute to the State's economy by the SmartZone described in this proposal. We are particularly well-positioned to focus on innovation, entrepreneurship, new technologies and economic development in a part of the State that, for a variety of reasons, has been among the State's most economically challenged.

In an effort to demonstrate our commitment to the Smart Zone, LSSU will provide initial administrative and management support, allocation of certain essential start up equipment, and continued administrative, student work-study, faculty involvement, equipment and in kind support that will amount to at least \$500,000 over the first 15 years of the project. In addition, the services of the PDC will be provided to this market at below-market cost through subsidy by the University.

LSSU enthusiastically supports this application and looks forward to your review and favorable consideration. If I can provide any further information or background I will be happy to do so.

Sincerely,



Rodney L. Lowman
President

Office of the President
650 West Easterday Ave., Sault Ste. Marie, MI 49783
906-858-2002; rlowman@lssu.edu



Sault Ste. Marie SmartZone BUSINESS PLAN

Entrepreneurial Support

The Sault SmartZone will provide accelerator services to entrepreneurs, start up businesses, and small businesses through a variety of means. Through the structure of the Prototype Development Center (PDC) the students and faculty of the LSSU School of Business, Entrepreneurial and Legal Studies (SBELS) will provide assistance in creating business and marketing plans as well as guiding the clients in establishing the infrastructure needed to operate a business.

The Sault Economic Development Corporation and LSSU Prototype Development Center through their collaborations with Michigan Small Business and Technology Development Center (MI-SBTDC), MEDC and other agencies, as well as other complementary businesses, will provide for introductions to business partners, additional services and funding sources. The MI-SBTDC network is a grassroots advocate for small businesses working in partnership with local resources to grow and strengthen companies. New ventures, in particular, may be unfamiliar with funding sources and support services. The MI-SBTDC works throughout the state to uncover opportunities and build relationships with organizations that makes a real difference to entrepreneurs. With limited resources available in the underserved areas of the EUP and Northern Lower Peninsula, the MI-SBTDC sees an excellent opportunity for growth in the region through this proposed prototype development center.

The Michigan Small Business & Technology Development Center network provides a full range of services for a variety of small businesses that are emerging and growing throughout Michigan: new venture companies, existing small businesses, expanding businesses, new technology companies, and innovators. The MI-SBTDC is known throughout Michigan for its quality counsel, training and market research capabilities. All services are available at low-or no-cost because of the financial support of the Small Business Administration and local partners in each region. The main services provided are listed below.

The LSSU PDC is currently structured to match university resources with client needs. Through the client intake process, specific needs are noted and satisfied by identifying and allocating equipment, faculty and students. Included in the process are the analysis of the project and the assessment of the likelihood of a successful outcome. Generally this will have occurred at an earlier level, such as the prototype development stage, when the PDC would first become involved.

The Sault EDC will make appropriate introductions to local banks and other financing sources such as Northern Initiatives.

The PDC, which to our knowledge is the first of its kind in a Michigan university, hosts and participates in meetings with groups such as the MI-SBTDC, the Eastern UP Regional Skills Alliance, the Northern Lakes Economic Alliance, the Sault EDC and others in order to maintain contact and network with businesses and resources in the region. These meetings provide frequent opportunities for the clients to network with other businesses at various stages of development and make connections with service providers such as intellectual property attorneys.

Beyond the direct engineering and business support functions of the PDC, LSSU possesses a wide spectrum of resources that may be accessed through the SmartZone collaboration such as fundamental research in the physical and biological sciences, grant writing instruction, and Information Technology.

The Soo Industrial Incubator was the first in the state of Michigan and has a successful history. Among some of the firms that have graduated from the EDC's incubator program are: Key Plastics (formerly Soo Plastics, Inc.), JAS Veneer, Inc., Screen and Stitch, R&B Electronics and AgX Imaging. This speaks well to the expected success of the SmartZone breeder facility. Local EDC experience in the management and operation of the incubator facility provides a strong basis for the planning of the Breeder operations. Since the Breeder is to be constructed in the airport TIFA, the necessary telecommunications and similar services are in place. As described previously, the Breeder will provide laboratory space, a "teaching factory" space and equipment to manufacture products in a controlled learning environment with experienced PDC staff available. Additional laboratory space is available to SmartZone clients at the University through PDC.

The LSSU Engineering Department is unique in its hands on, faculty involved, practical approach to delivering engineering education to undergraduates. The prevalence of lab sessions associated with fundamental engineering course work provides graduates with a strong practical experience in their chosen field. To accomplish this, faculty are involved in 'real world' engineering activities. This creates a special resource that can benefit SmartZone clients, skilled technical labor, both faculty and student. Other unique resources include materials analysis, 3D CAD and Rapid Prototype modeling, structural analysis software, manufacturing automation lab, surface mount technology for electronic assembly, and one of only two public university undergraduate robotics labs in the nation. Many LSSU graduates are placed in key robot manufacturing and integrating companies and the LSSU is known and respected in the robotics industry. This focus on applied engineering has attracted projects from companies including Algoma, Chrysler, Continental, Delphi, GM, Mead/New Page, PIAB, Precision Edge, Siemens Automotive, Walbro and others.

The City of Sault Sainte Marie will provide the building to house the SmartZone accelerator. Lake Superior State University through the PDC will provide the business and engineering services to take a product from prototype stage to commercially viable product and business ready to move on to a facility such as the Soo Industrial Incubator. Other services are to be provided by LSSU through the application of its resources. The business infrastructure services, such as marketing plan, business plan and setup of accounting systems will be delivered by way of the School of Business, Entrepreneurial and Legal Studies students and faculty. Design and pre-production manufacturing will be performed using manufacturing equipment and instruction from the Engineering Department guided by PDC staff, faculty and students.

The central strategy for commercializing inventions will be to first analyze the idea, recommend intellectual property services as appropriate, develop a working prototype through the PDC and prove the feasibility of the product. From that point the School of Business, Entrepreneurial and Legal Studies will work with the client to determine the marketability, develop a marketing plan and business plan. Products that are both feasible and marketable would be subjected to a 'design for manufacture' process and a production plan would be developed. SmartZone partners would then be in a position to aid in funding the business. Initial production quantities would be manufactured in the accelerator. Beyond this point of product introduction and initial funding it is expected that the client would graduate to the services of the Soo Industrial Incubator. It should be recognized that a new business may have additional

product ideas and that these would be candidates to re-enter the SmartZone commercialization process.

SmartZone clients would also benefit from other services available through LSSU such as classes and seminars, opportunities to network with other inventors and small businesses, use of meeting rooms and facilities at reduced cost as well as economic incentives available through the City of Sault Sainte Marie or the EDC.



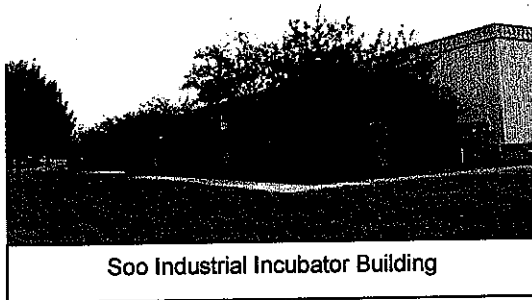
Sault Ste. Marie SmartZone BUSINESS PLAN

Physical Location of SmartZone

The Sault SmartZone will be composed of two non-contiguous technology parks in the new Sault Ste. Marie Local Development Finance Authority District. The LDFA District will be designated as the entire corporate boundaries of the City, an area of approximately 17 square miles, with a population of 14,500. The Sault Industrial Park, one of the original State Certified Industrial Parks, is SmartZone West. This is a 64 acre Industrial Park that encompasses the Soo Industrial Incubator, the first incubator facility constructed in the State of Michigan, as well as Foreign Trade Zone #16. The Sault Air Industrial Park on the east side of the I-75 freeway is SmartZone East. This newer park is an 80 acre development, and is situated within an Airport Tax Increment Development District, an Act 450 of 1980 creation. Both sites areas are situated on major City trunk- lines within very close proximity to the I-75 freeway.

A map of the City of Sault Ste. Marie is attached, with the two technology parks identified, along with the location of Lake Superior State University. The University is within one-half mile of each of the two parks.

Both parks were developed by the City (through the Tax Increment Financing Authority for the Air Industrial Park). Industrial land in both parks is owned by the City until sold for development. Most of the lots in both parks will be sold to manufacturers and/or research enterprises at the long-standing City policy and subsidized rate of \$5,000 acre. Within the Sault Industrial Park, however, is the Soo Industrial Incubator Building, the first Incubator Building in Michigan, and a facility that has been in continuous operation for nearly 36 years. This building is City-owned and is managed by the Sault Ste. Marie Economic Development Corporation. The facility has operated without subsidy and at a discounted lease rate for at least 28 years. As noted in the Financial Plan, in the later years of the LDFA, some physical improvements and modernization is proposed for the Incubator.



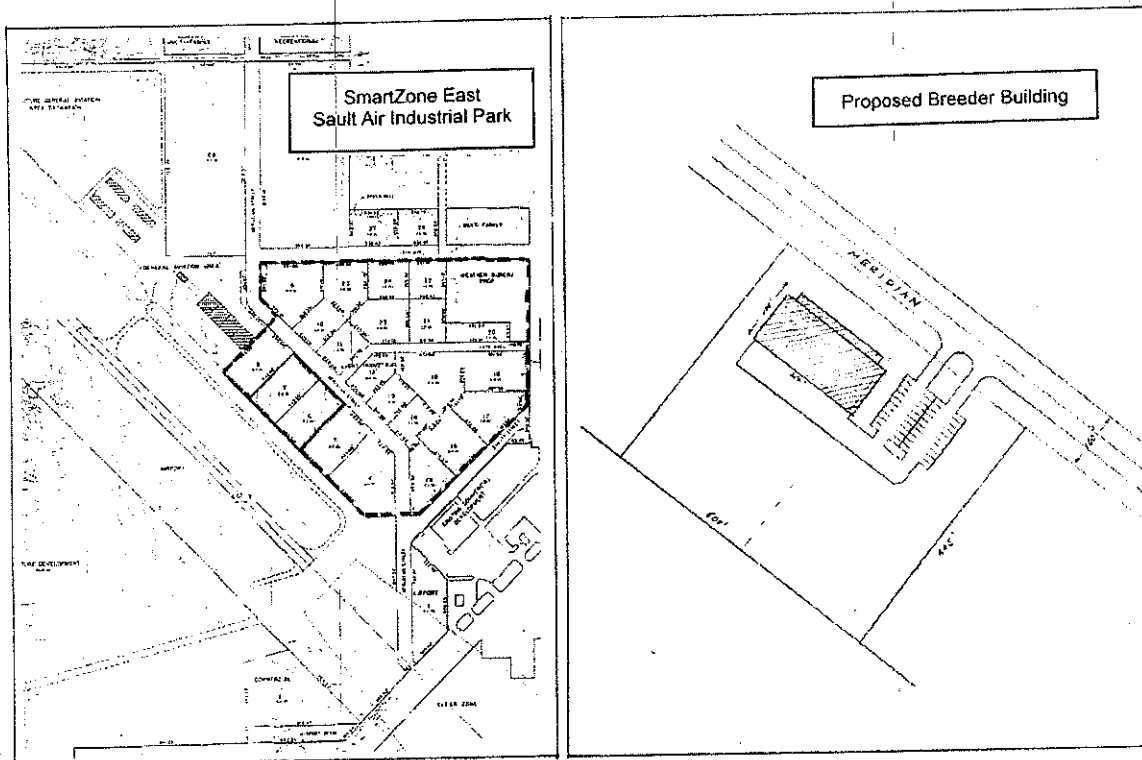
Soo Industrial Incubator Building

A new building, the Breeder, a technology accelerator, will be constructed in the Sault Air Industrial Park. This building will be constructed by the City, with funding coming from both the City and from tax increment revenues from the LDFA. As part of the SmartZone, this building is planned to be constructed as a 20,000 square foot flexible space facility with provision for some incubation as well as breeding. The building will be based on the general design parameters of the Soo Industrial Incubator, with a minimum of 16 foot ceiling height, office space and meeting rooms in front, steel frame, two loading doors and a large parking lot. LEED technology will be incorporated in the building design. As new products emerge out of the Breeder and into full commercialization, a period of incubation is expected. The existing Soo Industrial Incubator will likely be able to address most of these needs, but there will likely be times when additional incubation space is desirable. The Breeder will allow for the new firms to lease space in part of the Breeder building at the low subsidized incubator rates then in force. The EDC-TIFA will manage the plan engineering, building specifications and bidding process for the construction of

this new building for the City. The EDC and the City have extensive experience in infrastructure development, both roads and utilities as well as buildings, most recently with the renovation and expansion of an existing 12,000 square foot manufacturing building to modern standards for R & B Electronics, Inc., a growing high technology aerospace components company in the Sault Industrial Park.

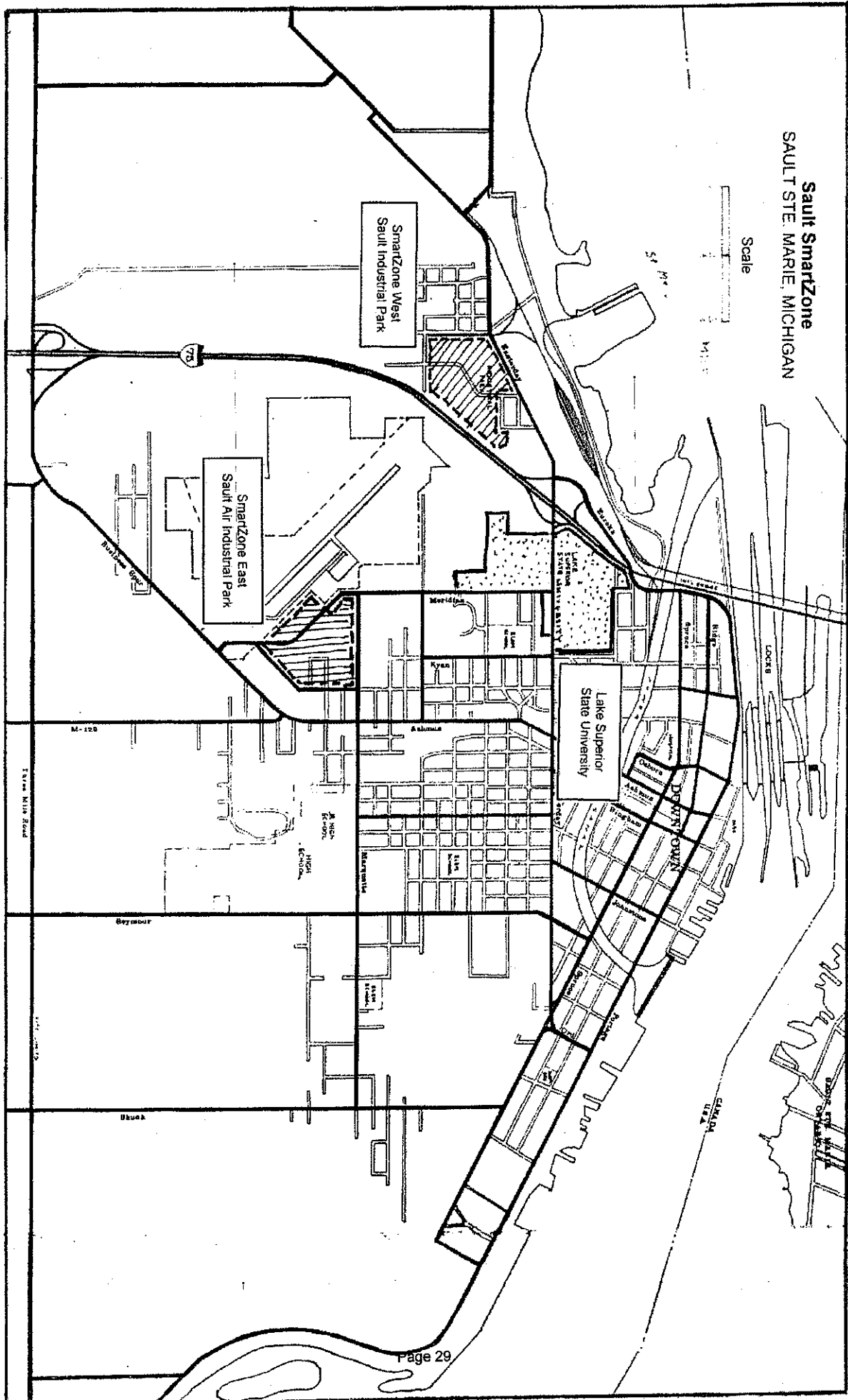
The Soo Industrial Incubator is currently renting 7,600 square feet of space to a technology tenant, Innovative Composites Incorporated, a company developing a product line around continuous thermoplastic technology and which is in the early stages of commercialization. This firm is expected to create at least ten jobs within one year, but it could possibly be much more. While not an "anchor tenant" in the sense of the proposed SmartZone, the firm nevertheless provides an example of the type of technology firm expected to "breed" out of the new Technology Breeder.

Zoning for both parks is "I-1" Light Industrial. No additional zoning actions are required. Both parks are also fully serviced with all major utilities, including water and sewer, storm sewer, natural gas, phone telecommunications and underground electricity. There are no environmental constraints, and no impediments to development. Both Parks have Deed Restrictions in place, an abbreviated summary of which is included. The Sault Industrial Park Deed Covenants provide for building and site approval by the Sault Ste. Marie EDC. The Air Industrial Park Deed Covenants provides for City Manager enforcement. In both cases, and in addition to the Deed Covenants, the City has a comprehensive Site Plan Review procedure in place in its zoning ordinance that all new development must meet.



Sault SmartZone SAULT STE. MARIE, MICHIGAN

Scale



Typical Deed Covenants (abbreviated)
SAULT INDUSTRIAL PARK
AIR-INDUSTRIAL PARK - SAULT STE. MARIE

1. **Uses Permitted:** No part of said real estate or any building structure or improvements thereon shall be used for other than manufacturing, industrial, warehouse, or related uses as its primary use as described and set forth below. No manufacturing operation or fabrication shall be permitted outside building.

2. **Building Construction:** All buildings shall be basically of steel or other metal, masonry and glass construction. No frame building shall be permitted without the approval of the designated approval authority. All sides of any building facing upon a public street must be of finished material.

3. **Building Setbacks and Greenbelt:** No building shall be located nearer to any front street right-of-way line than thirty-five (35) feet therefrom. This setback shall be primarily maintained as a greenbelt. No uses shall be made of said property except for driveways, walks, or other means of access to the interior of the property and for space for parking for visitors. The portion of the described setback not occupied by permitted improvements must be landscaped with lawn, shrubbery, trees, bushes, vines or suitable plants. The owner must maintain such landscaping in a condition so as to present a pleasing appearance.

4. **Parking Areas and Loading Zones:** The owner must provide adequate off-street parking facilities so as to eliminate any necessity for the parking of vehicles upon the public streets within this subdivision. The majority of all parking provided shall be to the sides or rear of the building or behind the thirty-five (35) foot yard setback.

No loading or unloading docks shall face any public street, nor shall the loading and unloading docks be clearly visible from the frontage street, but shall be obscured by appropriate greenbelt plantings, walls or other obscuring site details.

All driveways, walls, parking areas and loading areas shall be paved with concrete, asphalt or other hard surface materials.

5. **No storage** shall be permitted in the front yard setback and all storage shall be shielded by a fence or landscaping so as to effectively screen the view of such storage area from public streets and adjoining properties.

6. **Building Height:** No building or structure shall exceed 40 feet in height.

7. **Signs:** Signs shall be regulated as set forth below in addition to meeting all requirements of the City Sign Code:

8. **Maintenance of Property:** The property owner shall maintain all buildings, landscaping, fences, drives, parking lots, or other structures located upon said property in good and sufficient repair and shall keep such premises painted, lawns cut, shrubbery trimmed, windows glazed and otherwise maintain the property in an aesthetically pleasing manner, reasonable wear and tear excepted.

APPENDIX "F"

Service Mark Specifications

SmartZonesSM

SERVICE MARK HANDBOOK

This Service Mark Handbook has been developed to answer basic questions about service mark usage in connection with the Michigan SmartZones.

What is a Service Mark?

A service mark is a word, phrase, symbol or design, or combination of those, which identifies and distinguishes the source of a service of one party from those of others. It is the same thing as a trademark, except it is for a service rather than a product.

Examples of Service Marks:

- Two Men and a Truck
- Comerica
- Tuffy Auto Service Centers
- Stanley Steamer
- SmartZone, SmartZones

How do you get a Service Mark?

There are two ways to get a service mark. One is to simply use the mark commercially. The second is to file an application with the United States Patent and Trademark Office and use the mark in commerce across state lines.

The MEDC has done both. We are using the SmartZones mark commercially and we have filed an application with the United States Patent and Trademark Office.

What are the benefits of a Service Mark?

Establishing service mark rights gives the owner the ability to keep others from trading off of the value it builds up in the mark and the value of public recognition of the owner's services.

Using the examples of service marks from above most people know:

- that Two Men and a Truck is a moving service,
- that Comerica is a bank,
- that Tuffy Auto Service Centers are known for their mufflers,
- that Stanley Steamer is associated with rug cleaners

Our goal is that SmartZones be associated with very innovative clusters of technology-based businesses and research institutions throughout the state.

When do you use a Service Mark?

Use the service mark any time you want the public to identify the services being offered with the owner of the mark.

You should use the SM symbol any time the mark stands out as the source of the services, such as in:

Advertising
Headings
Titles

Letterhead
Business Cards
Signs

The broader the public exposure, the more you should prominently display the SM.

In longer marketing material, the use of the service mark symbol every time "SmartZone" (known as "the mark") is used in a document can disrupt the flow of normal text. Therefore, use an * after the mark and denote at the bottom that "SmartZone" is a Service Mark of The Michigan Economic Development Corporation.

Why did the MEDC Service Mark SmartZones?

In two words: Quality and Innovation

SmartZones are a very innovative approach to stimulating and supporting the growth of technology-based businesses and jobs. These technology clusters, building on Michigan's strong scientific, engineering, educational, and research capabilities, will bring to market the application of scientific and technological innovation to help drive Michigan's economic development strategy for years to come. Therefore, it is critical that each SmartZone reflect a high level of quality in its businesses, research activities, training and support services, and marketing. It is necessary, then, to ensure that quality services are offered under a service mark the public recognizes.

Can we name the SmartZone?

During the selection process and awarding of the SmartZone designation, the MEDC and the local applicants have already agreed to the name of the SmartZone. The approved names of the local SmartZones are:

Battle Creek Aviation and e-Learning
Grand Rapids
Kalamazoo
Lansing Regional
Michigan Tech Enterprise
Mount Pleasant

Muskegon Lakeshore
Oakland Automation Alley
Pinnacle
Ann Arbor/Ypsilanti
Woodward Technology Corridor

The use of the local name combined with the SmartZone service mark is allowed but must meet service mark criteria by visually separating SmartZone through spacing, different font, a line, etc. from the name when used in a title, logo, or other identifier.

The following example would **meet** the service mark criteria for the use of the local identifier with the SmartZone Service Mark:

Battle Creek Aviation and e-Learning
SmartZoneSM

Battle Creek Aviation and e-Learning
SmartZoneSM

In this example, Battle Creek Aviation and e-Learning is on a different line than SmartZone, it is separated by a line, it is in italics and in a different font.

The following examples would not meet the Service Mark criteria when used in a title, logo, or other identifier.

Battle Creek Aviation and e-Learning SmartZoneSM
Battle Creek Aviation and e-Learning SmartZoneSM

In each of these examples Battle Creek Aviation and e-Learning is on the same line as SmartZone, which can lead the reader to believe the whole line is service marked, not just the SmartZone.

Can we use the business, research or governmental entities in identifying the SmartZone?

SmartZones are associated with an educational institution or a private research institution ("University"). Therefore, it is not unreasonable to identify the university with the SmartZone. In order to meet the Service Mark criteria, the following format must be used:

Kalamazoo SmartZone^{SM*} at Western Michigan University

*SmartZones is a Service Mark of The Michigan Economic Development Corporation.

Can you combine Trademarks with Service Marks?

Yes, this is done frequently. A good example is Microsoft® and their various software programs. The word "Microsoft" is service marked, while its software programs are trademarked.

A number of the educational institutions involved with the SmartZones have logos that are service marked as well as some of the major contributors to the SmartZones. These various logos can be combined in marketing material and signage. We request that the SmartZone logo be the predominate image/wording.



The MEDC is willing to work with you on these issues, but we want to review all marketing materials, including signage, prior to their publication, per your SmartZone agreement.

What is the difference between an SM and a ®?

Once the service mark application has been fully processed by the United States Patent and Trademark Office and an official Registration Certificate has been issued, the owner may use the ® at the end of the mark instead of SM.

Will signs and other marketing materials have to be changed from SM to ®?

Signs are of a permanent nature and usually very costly to change. We will not require the centers to change the SM to a ®. You can still use the SM even after it is registered. The ® indicates it is on the Patent and Trademark Office Register.

As you update or reprint marketing material the SM should be changed to the ®.

Who owns the Service Mark for the SmartZones?

The Michigan Economic Development Corporation owns the Service Marks and contractually licenses individual SmartZones to use them.

How do we give attribution to the MEDC that is a requirement of our contracts?

Please use the following:

SmartZones is a registered service mark of The Michigan Economic Development Corporation.

APPENDIX "G"

Letters of Commitment

City of Sault Ste. Marie
Sault Ste. Marie EDC
Lake Superior State University

(attached)



City of Sault Ste. Marie, Michigan

325 COURT STREET
SAULT STE. MARIE, MI 49783

Phone: 906/632-5705
Fax: 906/635-5606

Anthony G. Bosbous
Mayor

June 27, 2008

Michigan Economic Development Corporation
300 North Washington Square, 2nd Floor
Lansing, Michigan 48913

RE: Establishment of a SmartZone in Sault Ste. Marie

Dear sirs:

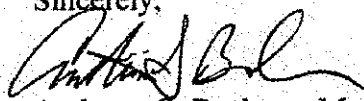
The City of Sault Ste. Marie is strongly committed to the establishment of a SmartZone in Sault Ste. Marie. The City Commission formally authorized this SmartZone application at its meeting of June 16, 2008, and committed \$415,000 in funding toward this project. These funds will be committed to the construction of the new accelerator building to be built at the City's Air Industrial Park on a City-owned fully-serviced parcel.

I will insure that all City departments and agencies provide whatever additional support and assistance may be necessary to insure the zone's success. The Economic Development Corporation and its Tax Increment Financing Authority especially will be providing specific financial resources and management assistance. As that board makes recommendations to the City on matters requiring City Commission action, I will insure that the Commission has all the information needed to provide full support for any actions that will assist the SmartZone.

The community is very excited and enthusiastic about the potential the SmartZone brings to the area. The City has always worked closely with Lake Superior State University, and this SmartZone provides the opportunity for a full and enduring partnership that will do nothing but good for the community.

The City is committed to making the SmartZone a success.

Sincerely,



Anthony G. Bosbous, Mayor



ECONOMIC DEVELOPMENT CORPORATION
1301 Easterday West, Industrial Park
Sault Ste. Marie, Michigan 49783
Phone (906) 835-9131 • Fax (906) 835-1999

James F. Hendricks, Executive Director
email: jhendric@bizserve.com

June 27, 2008

Michigan Economic Development Corporation
300 North Washington Square, 2nd Floor
Lansing, Michigan 48913

RE: Sault Ste. Marie SmartZone

Dear sirs:

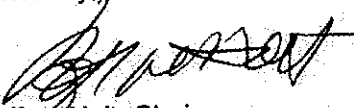
The Sault Ste. Marie Economic Development Corporation strongly supports the creation of a SmartZone in Sault Ste. Marie. The EDC, and its predecessor organizations, have been engaged in economic development activities for nearly 40 years in this community. During that time, we have played key roles in establishing a Foreign Trade Zone, an Industrial Incubator Building, two fully-serviced industrial parks, a Tax Increment Financing Authority and a Brownfield Redevelopment Authority. These efforts have helped significantly in creating primary jobs in this community despite our distance from major markets.

With the recent establishment of the Lake Superior State University Prototype Development Center, the community now has the capacity to undertake an accelerated effort to create new wealth and jobs through the spinning out of innovations, products and companies from this unique center.

The Sault Ste. Marie EDC Board acts as the Tax Increment Financing Authority Board. Between the two organizations, we are able to bring both financial resources, and management and professional expertise to this effort. As you will note in the proposal, we will be able to commit at least \$355,000 in tax increment funds to the zone in the critical early start up months before new LDFA funds are generated. This will permit the zone to begin operating much earlier than otherwise possible. In addition, the City has committed \$415,000 in funds toward the construction of the new Breeder building. The EDC, with its 36 years of managing the existing Soo Industrial Incubator without outside funding, will bring this same expertise to the management of the new building. These are only two examples of how the partnership between the City, the EDC and LSSU will help to insure this is a successful project.

The EDC and its Tax Increment Financing Authority are strongly supportive of the creation of a SmartZone in Sault Ste. Marie, and will undertake whatever efforts are necessary to insure its success.

Sincerely,


Jeffrey Holt, Chairman
Sault Ste. Marie EDC

Sincerely,


Thomas Veum, Chairman
Tax Increment Financing Authority

LAKE SUPERIOR

STATE UNIVERSITY

June 30, 2008

Michigan Economic Development Corporation
300 N Washington Square, 2nd Floor
Lansing, MI 48913

Greetings,

It is with considerable enthusiasm that I provide this letter of support for this SmartZone application made by the City of Sault Sainte Marie in partnership with Lake Superior State University (LSSU). As President of LSSU I can assure you that LSSU strongly supports this proposal.

The University and the City of Sault Ste. Marie have a long history of partnership. The City created the first incubator in the State of Michigan and the University, thanks to a 21st Century grant now has one of the state's only Prototype Development Centers. This combination suggest that the City of Sault Ste. Marie in combination with LSSU are uniquely qualified to benefit from, and contribute to the State's economy by the SmartZone described in this proposal. We are particularly well-positioned to focus on innovation, entrepreneurship, new technologies and economic development in a part of the State that, for a variety of reasons, has been among the State's most economically challenged.

In an effort to demonstrate our commitment to the Smart Zone, LSSU will provide initial administrative and management support, allocation of certain essential start up equipment, and continued administrative, student work-study, faculty involvement, equipment and in kind support that will amount to at least \$500,000 over the first 15 years of the project. In addition, the services of the PDC will be provided to this market at below-market cost through subsidy by the University.

LSSU enthusiastically supports this application and looks forward to your review and favorable consideration. If I can provide any further information or background I will be happy to do so.

Sincerely,



Rodney L. Lowman
President

Office of the President
650 West Easterday Ave., Sault Ste. Marie, MI 49783
906-858-2002; rlowman@lssu.edu