



**MICHIGAN JOBS COMMISSION**

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**MEMORANDUM**

**DATE:** June 19, 1998  
**TO:** Michigan Economic Growth Authority  
**FROM:** Jim Donaldson, Director, Michigan Business Development  
**SUBJECT:** Briefing Memo - AAR Corporation

**Company Name and Address:**

AAR Corporation  
One AAR Place  
1100 North Wood Dale Road  
Wood Dale, Illinois 60191

**HISTORY OF COMPANY:**

AAR is a publicly traded company founded 45 years ago. The primary activities of the company are the trade of aircraft and parts, airframe parts and aircraft parts distribution, and overhaul of aircraft. Trade accounts for more than half of the company's revenue with overhaul and manufacturing each contributing approximately one quarter of its revenue. AAR employs more than 2,100 employees in 33 facilities in 10 countries. Gross revenues for the company exceeded \$500 million in 1996. The company has increased revenues by approximately \$50 million annually for the past three years and expects this growth to continue into the future.

**PROJECT DESCRIPTION:**

AAR would like to expand its manufacturing capacity in the United States. The company is considering a site in Oklahoma or in Cadillac, Michigan. Its current facility in Cadillac produces aircraft and aerospace parts. Current products include shipping pallets and floor systems for air freight handling. This new project will create 300 new jobs and will have a capital investment of approximately \$12.3 million. Investment includes \$8.1 million for new construction and renovation of an existing facility and \$4.2 million for machinery and equipment. New products will be mobile shelters for military applications.

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If the project takes place in Cadillac, it will involve the expansion of an existing building in the city. It will include office and manufacturing space. Wage rates for these new jobs will average \$11.97/hour or \$479/week. By securing this expansion in Cadillac, the company will also be committed to retaining 363 jobs in Michigan. These jobs are located in Cadillac and Livonia and are based on the average for the preceding four quarters. Current employment in Michigan is 363. If this new facility is placed in Oklahoma, it is the company's stated intent to move the entire operation from Cadillac.

#### **BENEFIT TO STATE:**

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 447 jobs in the state by the year 2018. Total state government revenues through the year 2018, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$24,156,000 (1998 dollars) due to the presence of the AAR facility. The project would also retain 315 existing jobs in the Cadillac area that would otherwise be moved to Oklahoma.

#### **COST ANALYSIS:**

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Oklahoma and Michigan. Based on figures obtained from the company, the annual cost disadvantage for AAR to expand its manufacturing operations in Cadillac, rather than Oklahoma, ranges from \$470,000 to \$1.6 million over the term of the incentive. The cost differential is primarily attributable to utility and tax costs as well as an inducement package offered by Oklahoma. Wages are equivalent in Oklahoma and Michigan for these types of jobs. Michigan Jobs Commission staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Oklahoma.

#### **OTHER STATE AND LOCAL ASSISTANCE:**

The Michigan Jobs Commission will provide AAR with a 100 percent abatement of the six-mill State Education Tax for a period of time to match the local property tax abatement. Economic Development Job Training funds will also be offered to the company at \$1,000 per job for up to 300 net new employees for a total of up to \$300,000. In addition, the city of Cadillac will be applying for an infrastructure grant from the Michigan Renaissance Fund worth up to \$2 million to provide needed utilities and site development. Local assistance in the form of a 50 percent property tax abatement will be offered to AAR.

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**BUT FOR:**

The company feels that it can locate a state-of-the-art facility in Oklahoma at a cost that would not exceed the cost of purchase and rehabilitation of an additional facility in Cadillac. They also feel that they would have lower utility and business costs in Oklahoma.

**RECOMMENDATION:**

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 300 net new jobs.