



MEMORANDUM

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DATE: July 19, 2006
TO: Michigan Economic Growth Authority
FROM: Jim Donaldson, Vice President
Business Development
SUBJECT: Briefing Memo – AVL Powertrain Engineering, Inc.
High-Technology MEGA Credit

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COMPANY NAME AND ADDRESS:

AVL Powertrain Engineering, Inc.
47519 Halyard Drive
Plymouth, Michigan 48170

HISTORY OF COMPANY:

AVL Powertrain Engineering, Inc (PEI) is a wholly owned subsidiary of AVL Michigan Holding Corporation, which in turn is a wholly owned subsidiary of Austria based AVL List GmbH, a global company that designs and develops powertrain systems and related vehicle instrumentation test systems. AVL Powertrain Engineering, Inc. (PEI) designs, develops and provides engineering services for the development and testing of vehicle powertrain systems. The staff at PEI is made up of CAE Engineers, software support engineers and engine development specialists. The design workstations and development facilities in PEI can conduct a full range of projects from simple analysis of detailed aspects through to total engine concept design and development. AVL PEI also works closely with local and international component and system suppliers in the powertrain field and is initiating US-focused R&D activities.

PROJECT DESCRIPTION:

The proposed project is an engineering technical center that would serve clients throughout North America. The new facility would house several dynamometers, including at least one mobile dynamometer, allowing PMI to conduct advanced simulation on engines in the pre-prototype phase.



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The investment that is proposed at this time is for the renovation of leased facilities in Plymouth Township, as well as new machinery and equipment, and other personal property. The total number of new jobs to be added by AVL Powertrain Engineering, Inc. through 2011 as a result of this new engineering technical center is 125. The average weekly wage is estimated to be approximately \$1,238.

Total capital investment for the project would be approximately \$2.9 million, including \$1.4 million in machinery and equipment, \$1 million in leasehold improvements and \$525,000 for computers, furniture and other personal property. An additional \$2 million has been budgeted for this project for lease payments over eight years.

BENEFIT TO STATE:

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, we estimate this facility will generate a total of 157 jobs in the state by the year 2018. Total state government revenues through the year 2018, net of MEGA costs and adjusted for inflation, would be increased by \$2.1 million (2006 dollars) due to the presence of this facility.

BUSINESS CASE:

South Carolina's International Center for Automotive Research (ICAR) at Clemson University was also considered as another North American site for the location of this project. Both the wages and taxes are lower in South Carolina, creating a cost disadvantage for Michigan. The parent company would like to see the facility placed near the company's headquarters in Graz, Austria. AVL North America, AVL PMI's North American parent company, had to fight hard to get the project placed in Michigan and the proposed MEGA credits have been instrumental in making the case for Michigan.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will provide a 50 percent abatement of the six-mill State Education Tax for a period of time to match the local real property tax abatement. The value of this abatement is estimated at \$55,661.

The Charter Township of Plymouth has proposed a 50 percent abatement for real and personal property related to this project for a period of twelve years. The estimated value of this abatement is \$375,154. Final approval is expected by the Township Board of Trustees at their meeting on August 15, 2006.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a 100 percent high-technology employment tax credit for 12 years, for up to 125 net new employees.

AVL Powertrain Engineering, Inc.
Summary Estimates
(All monetary estimates in 2006 dollars)

TOTAL JOBS CREATED (as of 2018)	157
Direct	125
Spin-off (includes Indirect Jobs)	32
NET POSITIVE STATE REVENUE IMPACT	\$2,143,000
Revenue foregone	\$3,563,000
Revenue gain	\$5,706,000
Personal income generated over life of MEGA agreement	\$74,080,000
Statewide employment multiplier (average, 2011–18)	1.18
Average Weekly Wage of Direct Jobs (as reported by the company at time of application)	\$1,238

**AVL Powertrain Engineering, Inc.
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2006	2007	2008	2009	2010	2015	2016	2017	2018	Total
Total Employment										
Manufacturing	23	27	52	80	107	148	151	154	157	
Non-Manufacturing	2	1	2	3	3	4	4	4	4	
Retail Trade	21	26	50	77	104	144	147	150	153	
Services	3	2	4	6	8	11	11	11	12	
Other	6	18	37	55	74	97	98	100	102	
	12	6	9	16	22	36	38	39	39	
In Current Dollars (Thousands):										
Personal Income	\$946	\$1,129	\$2,258	\$3,540	\$5,005	\$9,613	\$10,310	\$11,170	\$12,080	\$86,996
Gross State Revenue	73	87	174	273	385	740	794	860	930	6,699
Mega Cost	0	63	134	207	285	440	462	487	513	4,165
State Revenue Net of MEGA Cost*	\$73	\$24	\$40	\$66	\$100	\$300	\$332	\$373	\$417	\$2,534
Adjusted for Inflation (Thousands of 2006 Dollars):										
Personal Income	\$946	\$1,106	\$2,166	\$3,326	\$4,609	\$8,013	\$8,425	\$8,948	\$9,488	\$74,080
Gross State Revenue	73	85	167	257	355	617	649	689	730	5,706
Mega Cost	0	61	129	195	263	367	378	390	403	3,563
State Revenue Net of MEGA Cost*	\$73	\$24	\$38	\$62	\$92	\$250	\$271	\$299	\$327	\$2,143

* These estimates do not include any state government revenue losses due to the Investment Tax Credit, the Renaissance Zone Credit or the property tax abatement.

REMI Terms and Definitions

Benefits estimated by the model: the total number of jobs created in Michigan (by major industry, including spin-off jobs), and the associated personal income and state government revenue generated due to the gain in economic activity resulting from the project.

Direct jobs: the jobs created at the project facility itself, as estimated at the end of the incentive period.

Employment multiplier: the total number of jobs created (direct plus spin-off) for every direct job introduced constitutes the employment multiplier. The numerator of the employment multiplier equals the number of jobs (direct and spin-off) created on average over the incentive period when the facility is at full operations. The denominator of the employment multiplier represents the direct jobs created yearly over the same period.

Personal income: the income of Michigan residents from all sources, after deduction of contributions to social insurance programs but before deduction of income tax and other personal taxes.

Spin-off jobs: Spin-off jobs are generated from two sources: increased purchases from Michigan suppliers; and spending by people who receive income due to the increased economic activity.

Total employment effects: direct jobs created at the facility itself plus spin-off jobs, as estimated at the end of the incentive period.

REMI estimates do not include the nonmeasurable effects that would produce additional economic and fiscal benefits for Michigan, such as the intangible advantages of influencing other location and expansion decisions.