

MEMORANDUM

Date: February 15, 2011

To: Michigan Economic Growth Authority

From: Stacy Bowerman, Project Specialist
Packaging Team

Subject: Briefing Memo – American Broach & Machine Company
High Technology (High-Wage) MEGA Credit

COMPANY NAME

American Broach & Machine Company
575 South Mansfield
Ypsilanti, Michigan 48197
www.americanbroach.com

HISTORY OF COMPANY

American Broach & Machine Company (“ABM”) is an Ypsilanti, Michigan-based broaching company that was founded in 1919 in Ann Arbor, Michigan. ABM started as a small family owned custom machine tool building company employing 20-25 people located in three small plants in the Detroit area. Today, ABM designs, builds and delivers broaching machines, which are machine tools used in customized automated cutting processes, for a diverse group of industries including auto and defense.

The company has since been consolidated into one location in Ypsilanti. In 2005, QC American acquired 60 percent of ABM and as of December 2010 has fully acquired the company. QC American is a wholly-owned subsidiary of Qinchaun Machine Tool Group (QCMT&T), a Chinese company focused on manufacturing machines.

The company currently has 31 employees in Michigan.

PROJECT DESCRIPTION

QCMT&T is considering opening a new research and development center to design, engineer and develop new broaching machines. ABM would like QCMT&T to choose its Ypsilanti location for the future site of this research and development center. ABM’s global machine sales have declined due to lack of technical innovation, making this research and development center key for the future success of ABM. Securing this new research and development center would allow ABM to reinvent itself as an innovative machine and tool company, allowing it to be more competitive in the global market.

If chosen, the company would invest approximately \$25 million and create up to 43 jobs over the next five years as a result of this project. The average weekly wage for the newly created jobs is anticipated to be \$1,128. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost. The effect on other Michigan businesses in the same industry was taken into consideration when recommending the amount and length of this tax credit.

BENEFIT TO STATE

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will generate a total of 83 jobs in the state by the year 2017. Total state government revenues through the year 2017, net of MEGA costs, would be increased by \$1.8 million (current dollars) due to the presence of this facility.

BUSINESS CASE

The parent company, QCMT&T is seeking multiple proposals from divisions within the company for the location of this research and development center. A division in Toronto, Canada is ABM's main competitor. Economic Development incentives are being sought in that location. In addition to the Toronto division, QCMT&T is also considering the option of developmental manufacturing in China. If this were to occur, most of the employees would be located in China with a small research and development office being required in Ypsilanti or Toronto. The MEGA tax credit and other costs/incentives are the key factors in the final decision.

OTHER STATE AND LOCAL ASSISTANCE

The City of Ypsilanti is supportive of this project and anticipates approval of the following at its February 15, 2011 council meeting:

- 12 year 50% real property tax abatement under PA 198, with an estimated value of \$741,000; and
- 6 year 100% personal property tax abatement under PA 328, with an estimated value of \$1.5 million.

In addition, the MEDC is supportive of an abatement of the six-mill State Education Tax for a period of 12 years. The estimated value of this abatement is \$126,000.

QUALIFYING HIGH-TECHNOLOGY ACTIVITY

The company is a qualified high-wage business, as defined in the Act. The company is not qualifying with the 10 percent research and development requirement.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent high-technology employment tax credit for seven years for up to 43 net new employees in excess of the company's established base of 31.