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MEMORANDUM

DATE: January 25, 2000
TO: Michigan Economic Growth Authority
FROM: Dawn Baetsen, Managing Director
Global Business Development
SUBJECT: Briefing Memo – American Greetings Corporation

COMPANY NAME AND ADDRESS:

American Greetings Corporation
One American Road
Cleveland, Ohio 44144

HISTORY OF COMPANY:

American Greetings Corporation was founded in 1906 and is the world's largest publicly held creator, manufacturer and distributor of social expression products. These include greeting cards, party goods, candles, stationery and mylar balloons. American Greetings is headquartered in Cleveland, Ohio and in 1999 bought Contempo Colors, a Kalamazoo-based company that was in the same line of business.

PROJECT DESCRIPTION:

Due to increased orders for two product lines, American Greetings finds it necessary to expand current manufacturing capacity. The company is evaluating putting this increased production in either the newly-acquired Kalamazoo facility, or at another existing facility in Corbin, Kentucky.

An expansion of the Kalamazoo facility will require the addition of 162,000 square feet of manufacturing space at a cost of approximately \$5 million. Also, the company would transfer equipment from a plant in Kentucky and buy new equipment totaling \$13,825,000. The expansion would require the addition of 200 net new employees over a three-year period with an average weekly wage of \$460 (\$11.50 per hour). Construction on the building would commence in early March, 2000 and would be completed by the end of September, 2000. Equipment transfer and installation would be complete by July, 2001, at which time the facility will be fully operational.

Governor John Engler
GENERAL CHAIR

Doug Rothwell
PRESIDENT & CEO

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BENEFIT TO THE STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 344 jobs in the state by the year 2010. Total state government revenues through the year 2010, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$10,699,000 (2000 dollars) due to the presence of the American Greetings facility.

COST ANALYSIS:

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Michigan and Kentucky. Based on information obtained from the company, the cost disadvantage for American Greetings to put this expansion in Michigan rather than Corbin, Kentucky ranges from \$8.9 million in the first year to a savings of \$800,000 annually, starting in year three, over the term of the incentive. These differentials are attributable to extensive building renovations required at the Michigan facility, as well as the need to purchase more equipment if production is in Michigan. The existing plant in Corbin, Kentucky has sufficient capacity to produce these lines of product without requiring building costs; also some of the production equipment required is currently available at this facility and a new shift could be added to this line to produce the new products.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will provide American Greetings with a 100 percent abatement of the six-mill State Education Tax for a period of time to match the local property tax abatement. This tax abatement is estimated to be worth approximately \$489,877 over the term of the incentive. In addition, the state will offer job training assistance of \$1,000 per job for up to 200 net new jobs and an additional \$200,000 in training for 294 existing employees, for a total of up to \$400,000 in job training assistance.

The city of Kalamazoo will provide a 50 percent property tax abatement for a period of 12 years on real property and 6 years on personal property, estimated to be worth approximately \$2,499,352.

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BUT FOR:

In analyzing the costs associated with operating this expansion in Michigan versus Kentucky, it was found that Michigan will actually be less expensive over the long-term, primarily due to lower wage rates for that industry in Michigan than in Kentucky. However, the company's primary concern is the up-front costs associated with expanding the Michigan operation, which over the first three years will total \$13.5 million over and above the costs of putting the expansion in Kentucky. American Greetings feels that the Michigan workforce is highly productive and they would like to put the project in Michigan if Michigan can alleviate some of the company's initial capital costs.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 200 net new jobs for a period of 10 years and a business activity credit of 50 percent for a period of 10 years.