



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: April 22, 2008  
TO: Michigan Economic Growth Authority  
FROM: Val Hoag, Director *word*  
Portfolio Management & Packaging  
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SUBJECT: Briefing Memo – BAE Systems Land and Armaments L.P.  
High-Technology Look Back MEGA Credit

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COMPANY NAME AND ADDRESS:

BAE Systems Land and Armaments L.P.  
35843 Mound Road  
Sterling Heights, MI 48310

HISTORY OF COMPANY:

BAE Systems is a global company engaged in the development, delivery and support of advanced defense and aerospace systems in the air, on land and at sea. BAE Systems has operations across five continents; with customers and partners in more than 100 countries. Principal customers include the United States Department of Defense and allies worldwide. With approximately 96,000 employees worldwide, BAE Systems is the third largest global defense company.

The Land and Armaments Operating Group is a global leader in the design, development, production and service support of armored combat vehicles, major and minor caliber naval guns and missile launchers, canisters, artillery systems and intelligent munitions. With nearly 18,000 employees, the Land and Armaments Operating Group has operations in 30 locations in the United Kingdom, South Africa, Sweden and the United States; with markets in more than two dozen countries.

BAE Systems has two current facilities in Sterling Heights, Michigan with 87 employees.

PROJECT DESCRIPTION:

BAE Systems is looking to construct a modern, state of the art business development and technology center focused upon the requirements of the United States Department of Defense and its worldwide allies. The proposed Michigan site will remain in Sterling Heights and will include the purchase and renovation of an existing facility totaling 175,000 sq. ft. A second, new facility will then be constructed adjacent to the initial site and will provide room for significant growth beyond the project being considered for this MEGA tax credit.

At this location, BAE Systems will develop a premier facility in order to showcase the capabilities of BAE Systems as well as attract the personnel resources required to support the product development requirements of the customer base.

This proposed location will allow BAE Systems to consolidate the two existing facilities into a single campus and provide for the creation of 460 high wage, technical jobs. The average weekly wage for these jobs is estimated at \$1,601.

The capital investment is projected to be \$58,400,000 for the multi phase construction over the first four years.

#### **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 1,019 jobs in the state by the year 2022. Total state government revenues through the year 2022, net of MEGA costs and adjusted for inflation, would be increased by \$49 million (2008 dollars) due to the presence of this facility.

#### **BUSINESS CASE:**

BAE Systems is considering four locations for this expansion including BAE's current locations in Anniston, Alabama; York, Pennsylvania; and Santa Clara, California. The Sterling Heights location could meet its long-term requirements for office space and a product development facility and center. However, this option would require the acquisition of the site as well as substantial renovation and construction costs. By comparison, it would not be necessary to construct the product development center at the York, Pennsylvania. In York, the required office space would be obtained by renovating and expanding existing BAE facilities.

While the advantage of Sterling Heights is its relative location to the U.S. Army's Tank-automotive and Armaments Command (TACOM) and Tank-Automotive Research, Development and Engineering Center (TARDEC) headquarters in Warren, Michigan, the projected cost differential between Sterling Heights and York is projected to be a total of \$40 million over five years.

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

The City of Sterling Heights is supporting this project for BAE Systems and anticipates approval of a real and personal property tax abatement for twelve years under PA198 of 1974. This abatement has an estimated value of over \$4.5 million.

The Michigan Economic Development Corporation has also approved \$460,000 in EDJT funds for training new hires.

**QUALIFYING HIGH-TECHNOLOGY ACTIVITY:**

The company is a qualified high-technology business, whose primary business activity is Homeland Security and Defense Technology, as defined in the Act.

**LOOK BACK AGREEMENT REQUEST:**

BAE Systems has requested a look back to April 14, 2008. Due to the nature of the positions and high demand for these types of engineers, BAE requested the ability to make job offers at the SAE International World Congress Event in Detroit. Participation in this event is critical to recruiting top candidates. Therefore the Michigan Economic Development Corporation recommends that the Board authorize a look back agreement, which will allow the company to count additional jobs created beginning April 14, 2008.

**RECOMMENDATION:**

The Michigan Economic Development Corporation recommends a 100 percent high-technology look back employment tax credit for fourteen years, for up to 460 net new employees. In order for the company to collect the credit in years 13 and 14, the company must create 450 net new jobs by the fifth year of the MEGA tax credit. Failure to meet the job creation thresholds will result in BAE Systems forfeiting the remaining two years respectively.