



**MICHIGAN ECONOMIC DEVELOPMENT CORPORATION**

**MEMORANDUM**

300 N. WASHINGTON SQ.  
LANSING, MI 48913

CUSTOMER  
CONTACT CENTER  
517 373 9808

WWW.MICHIGAN.ORG

**DATE:** August 15, 2006  
**TO:** Michigan Economic Growth Authority  
**FROM:** Jim Donaldson, Vice President  
Business Development

**SUBJECT:** Briefing Memo – Cadillac Rubber & Plastics, Inc.  
Rural Retention Credit

**COMPANY NAME AND ADDRESS:**

Cadillac Rubber & Plastics, Inc.  
602 West 7<sup>th</sup> Street  
Cadillac, Michigan 49601

**HISTORY OF COMPANY:**

Cadillac Rubber & Plastics, Inc. was formed in 1956 and acquired by Avon Rubber plc. in 1989. Avon Automotive, the automotive division of Avon Rubber plc. was recently divested to a private investment group led by the management team backed by Red Diamond Capital; a New York based investment house which is a subsidiary of Mitsubishi International Corporation.

Cadillac Rubber & Plastics, Inc., doing business as Avon Automotive, is a designer and manufacturer of low-pressure hoses and hose assemblies for coolant, heater, fuel, windshield-washer, vacuum brake, turbochargers, and other automotive control applications. Avon Automotive has 12 manufacturing locations in 10 countries, employing 3,500, of which 565 are in Michigan.

**PROJECT DESCRIPTION:**

The management team of Cadillac Rubber & Plastics, Inc. is proposing to purchase the automotive division of Avon Rubber plc. on August 10, 2006. Because of the decline in the automotive industry in recent years, the new owners are proposing to offset the gradual decline in traditional automotive products with newer product lines to the Cadillac and Manton plants. By maintaining traditional products and adding newer product lines at the Cadillac and Manton operations, the company will retain a total of 565 existing full-time employees at these plants. Average wages for the retained workers will be \$652 per week.

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Cadillac Rubber & Plastics, Inc. would add up to \$1.25 million in new machinery and equipment between the Cadillac and Manton operations by the end of 2007, and a total of up to \$7.6 million over the next five years.

#### **BENEFITS TO STATE:**

According to the economic analysis done by the University of Michigan utilizing Regional Economic Models, Inc. software, we estimate that this facility will retain a total of 1,122 jobs in the state by the year 2013. We also estimate that the project would maintain total state government revenues through the year 2013, net of MEGA cost and adjusted for inflation, of \$18.8 million (2006 dollars) due to the retention of this facility.

#### **BUT FOR:**

Cadillac Rubber & Plastics, Inc. is considering retaining its manufacturing operations in Michigan or moving them to Orizaba, Mexico. When comparing the Michigan and Orizaba, Mexico locations, the company estimates that wage rates in Orizaba are significantly lower. Even with a logistics cost advantage in Michigan, lower wage and benefit cost in Mexico could save the company up to \$1 million per year.

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

The cities of Cadillac and Manton will support a 50 percent, 12-year abatements of Cadillac Rubber & Plastics, Inc.'s new personal property. We anticipate the councils taking action on these abatements immediately following receipt of the tax abatement application from the company, within the next 60 days. The City of Cadillac tax abatement has an estimated value of \$62,000, based on investment of approximately \$750,000, and the City of Manton tax abatement has an estimated value of \$46,000, based on investment of approximately \$500,000.

#### **RECOMMENDATION:**

The Michigan Economic Development Corporation recommends a 100 percent retention employment tax credit for seven years, for up to 565 retained employees, subject to a repayment provision should the terms of the credit agreement not be met.