

MEMORANDUM

Date: June 15, 2010

To: Michigan Economic Growth Authority

From: Valerie Hoag, Director
Packaging Team

Phil Santer, Project Specialist
Packaging Team

Subject: Briefing Memo – Detroit Diesel Corporation
Retention MEGA Credit

COMPANY NAME

Detroit Diesel Corporation
13400 Outer Drive, West
Detroit, Michigan 48239

www.detroitdiesel.com

HISTORY OF COMPANY

Founded in 1937, the Detroit Diesel Corporation ("DDC") is a manufacturer of heavy-duty diesel engines for the commercial truck market. Based in Detroit, Michigan, DDC is engaged in the design, manufacture, sale, and service of these products. DDC serves its customers from its three million square foot manufacturing plant in Redford Township, Michigan. DDC offers a complete line of diesel engines up to 600 horsepower for the on-highway and vocational markets directly and through a network of more than 800 authorized service outlets in North America.

Until 1986, DDC was part of the Detroit Diesel Allison division of General Motors Corporation. The diesel engine operation was subsequently sold to Penske Corporation and incorporated as the Detroit Diesel Corporation. In 1993, DDC issued stock on the New York Stock Exchange and remained a publicly traded company until September 2000, when DaimlerChrysler purchased all outstanding shares of DDC, making it a wholly owned subsidiary. Today, DDC is a wholly-owned subsidiary of the Daimler North America Corporation.

DDC currently has 1,867 employees in Michigan.

PROJECT DESCRIPTION

DDC is considering making a capital investment of up to \$194 million that would expand its existing operation at its Redford Township manufacturing facility. This project would allow for the expansion of the manufacturing processes for the new series of heavy-duty diesel engines. The investment would cover facility renovations, infrastructure improvements, and procurement of machinery and equipment and the ongoing routine and incidental capital investment associated with the production of engines at DDC.

Detroit Diesel plans to invest up to \$194 Million and retain 1,900 jobs over the next five years as a result of this project. The average weekly wage for the newly created jobs will be \$950. 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 retain a total of 7,704 jobs in the state by the year 2021. It is also estimated that the project would maintain total state government revenues through the year 2021, net of MEGA costs, of \$352 million (current dollars) due to the retention of this facility.

BUSINESS CASE

According to their application, DDC evaluated the proposed investment relative to a site in Saltillo, Mexico, where they identified a cost gap with a Michigan location. Some factors identified in the cost gap with the Michigan location include lower labor costs, no state income tax, the lack of a personal property tax and the availability of economic incentives in Mexico. DDC also indicated their current facilities in Saltillo are particularly well suited for this project due to its manufacturing flexibility, proximity to raw material resources, its connections to road and rail networks, and the availability of space for future expansions.

OTHER STATE AND LOCAL ASSISTANCE

In addition to the credit recommended here, the MEDC is supportive of a Large Brownfield MBT credit for up to \$7 million for this project. The MEDC anticipates consideration of this incentive by the MEGA Board at a later time.

The Charter Township of Redford is also supportive of this project and plans to consider property tax abatements through P.A. 198 of 1974. The estimated value of this incentive is currently unknown. It is anticipated that these abatements will be considered at a future date.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends an employment tax credit for up to 100 percent for 11 years for the 1,900 retained employees at the Redford Township and the City of Detroit facility. DDC must maintain at least 1,000 jobs at the project site to qualify for the credit each year.

Detroit Diesel has agreed to set aside its existing MEGA tax credit, approved by the MEGA Board in August 2005.