



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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Date: June 15, 2010

To: Michigan Economic Growth Authority

From: Valerie Hoag, Director  
Packaging Team

Phil Santer, Project Specialist  
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Subject: Briefing Memo – Detroit Diesel Corporation  
Retention MEGA Credit  
Large Brownfield MBT Credit

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COMPANY NAME

Detroit Diesel Corporation  
13400 Outer Drive, West  
Detroit, Michigan 48239  
www.detroitdiesel.com

HISTORY OF COMPANY

Founded in 1937, 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 and markets 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**

The Charter Township of Redford is supportive of this project and plans to consider property tax abatements through P.A. 198 of 1974. Staff estimates the value of these local abatements at \$XXX over its term. It is anticipated that these abatements will be considered at a future date.

### **BROWNFIELD MICHIGAN BUSINESS TAX CREDIT REQUEST**

Project Eligible Investment:	\$56,000,000
Requested Credit Amount:	\$7,000,000
Requested Credit Percentage:	12.5%

### **Qualifying Criteria**

The project investment is located within the boundaries of the Charter Township of Redford, which is a qualified local government unit. The site is expected to be deemed functionally obsolete prior to board approval. In addition, the project is expected to become part of the Brownfield plan.

### **Key Statutory Criteria**

**a) Benefit to the Public:**

The benefit to the public will be determined prior to board consideration.

**b) The extent of reuse of vacant buildings and redevelopment of blighted property:**

This project will utilize an existing facility that is over three million square feet in size.

**c) Jobs Created:**

It is anticipated that the project will retain 1,900 full-time jobs.

- d) **Area of High Unemployment/Core Community:**  
The Charter Township of Redford's unadjusted unemployment rate was 7.9% in March 2010. This compares to the statewide seasonally adjusted average of 14.1% in March 2010. The Charter Township of Redford is considered a Core Community.
- e) **The level and extent of contamination alleviated by the qualified taxpayer's eligible activities to the extent known to the qualified taxpayer:**  
The level of contamination and extent of eligible activities will be determined prior to Board consideration.
- f) **The level of private sector contribution:**  
The total capital investment on the project is anticipated to be approximately \$194 million.
- g) **The cost gap that exists between the site and a similar greenfield site as determined by the Michigan economic growth authority:**  
No Greenfield properties were considered for this project.
- h) **If the qualified taxpayer is moving from another location in this state, whether the move will create a brownfield:**  
This project will not create an additional Brownfield property.
- i) **Whether the project is financially and economically sound:**  
After reviewing the financial information submitted by the company, the MEDC believes the project is financially and economically sound.
- j) **Any other criteria that the Michigan economic growth authority or the chairperson of the Michigan economic growth authority, as applicable, considers appropriate:**  
Other appropriate consideration will be determined prior to Board consideration.

#### **ELIGIBLE INVESTMENT BREAKDOWN**

Eligible investment breakdown will be considered prior to Board consideration.

#### **RECOMMENDATION**

Based on the factors described above, the Michigan Economic Development Corporation recommends up to 100 percent retention employment tax credit 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.

In addition, the Brownfield Staff recommends approval of a 12.5% Brownfield MBT Credit, not to exceed \$7,000,000.