

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

DATE: January 16, 2007
TO: Michigan Economic Growth Authority
FROM: Mark Morante, MEDC
Toni Brownfield, MEDC
SUBJECT: Briefing Memo – Eaton Aeroquip Inc.
Retention Credit

COMPANY NAME AND ADDRESS:

Eaton Aeroquip Inc.
300 S. East Avenue
Jackson, Michigan 49203

HISTORY OF COMPANY:

Eaton Aeroquip Inc., which was acquired as part of the 1999 Aeroquip-Vickers acquisition, is part of Eaton Corporation's Fluid Power Business. The business is a worldwide leader in the design, manufacture and marketing of a comprehensive line of reliable, high-efficiency hydraulic systems and components for use in mobile, industrial and aerospace applications. Eaton Corporation is today a diversified industrial manufacturer with 60,000 employees worldwide. The Jackson facilities in the City of Jackson and Blackman Township manufacture components for the aerospace industry. Historically, these Jackson County facilities have employed 563.

PROJECT DESCRIPTION:

Eaton Corporation's subsidiary, Eaton Aeroquip Inc.'s facilities in Jackson County have been under study to assess their competitiveness. The company is considering the closure of these facilities and relocating the work to Mexico. In the event that the facilities are closed, only about 50 employees would remain in Michigan. The scenario being proposed is to close Eaton Aeroquip Inc.'s Blackman Township facility, referred to as the "Township Plant", and transfer these operations to the City of Jackson, the "Jackson Facility."

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The project entails the consolidation of production of hose assemblies from the Township Plant to the Jackson Facility. Capital investment in Jackson would be approximately \$1 million over 5 years. The company will retain a minimum of 360 existing full-time employees, up to a maximum of 563, at the remaining facilities. Average wages for the retained workers will be \$1,027 per week.

BENEFITS TO STATE:

According to the economic analysis done by the University of Michigan utilizing Regional Economic Models, Inc. software, it is estimated that this facility will retain a total of 1,262 jobs in the state by the year 2013. It is also estimated that the project would maintain total state government revenues through the year 2013, net of MEGA cost and adjusted for inflation, of \$32 million (2007 dollars) due to the retention of this facility.

BUT FOR:

Eaton Aeroquip Inc. is considering retaining its Jackson County manufacturing operations in Michigan or moving them to Tijuana, Mexico. When comparing the Michigan and Tijuana locations, the company estimates that wage rates in Tijuana are significantly lower.

OTHER STATE AND LOCAL ASSISTANCE:

Under the MEGA act, local assistance is not required for this project. However, the City of Jackson approved the establishment of a 15-year Redevelopment Renaissance Zone to allow the consolidated aerospace manufacturing facility located at 300 South East Avenue to be virtually free of local property taxes. Based on tax information provided by the company, the estimated value of the Renaissance Zone is \$2.4 million for up to 15 years.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a 100 percent retention employment tax credit for seven years, for up to 563 retained employees, subject to a repayment provision should the terms of the credit agreement not be met.