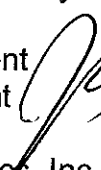




MEMORANDUM

DATE: September 17, 2001

TO: Michigan Economic Growth Authority

FROM: James Donaldson, Vice President
Michigan Business Development 

SUBJECT: Briefing Memo – Eaton Hydraulics, Inc.

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President & CEO

COMPANY NAME AND ADDRESS:

Eaton Hydraulics, Inc.
2425 West Michigan Avenue
Jackson, Michigan 49202

HISTORY OF COMPANY:

Eaton Hydraulics, Inc. (formerly Vickers, Inc.) was purchased in 1999 by Eaton Corporation, a diversified industrial manufacturer of highly engineered products to serve industrial, vehicle, commercial and aerospace markets. Eaton Hydraulics manufactures pneumatic and hydraulic cylinders and employs 142 workers in Blackman Township, Michigan. Eaton Corporation and its related companies employ 4,876 people in Michigan. Of those 3,962 are included in the base for this project.

PROJECT DESCRIPTION:

Eaton Corporation acquired another manufacturer of pneumatic and hydraulic cylinders, formerly called Motion Control, Inc., in September 2000. This operation is located in Rockford, Illinois. Eaton has decided to consolidate these two operations to control operating costs. Either the Jackson, Michigan or the Rockford, Illinois plant will be closed and the contracts transferred to the remaining facility.

If Michigan wins the project, the company anticipates that up to 119 new full time jobs will be created at the Jackson facility. Average weekly wages will total \$625 as well as a benefit package equal to approximately 30 percent of wages. Capital investment at the Jackson facility would total \$5,409,000 over a three-year period as new production equipment is purchased and installed. The company

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anticipates moving quickly on this project and will have the entire 119 new employees on board by the end of 2002.

BENEFIT TO STATE:

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. (REMI) software, we estimate this facility will generate a total of 176 jobs in the state by the year 2011. Total state government revenues through the year 2011, net of MEGA costs and adjustment for inflation, would be increased by \$5.7 million (2001 dollars) due to the presence of this facility.

BUT FOR:

As part of the company decision-making process, it conducted a comprehensive analysis between Jackson, Michigan and Rockford, Illinois. This analysis revealed that operating costs for the facility in Rockford, Illinois were lower by an average \$240,000 per year due to lower wages and taxes. In addition, the State of Illinois has offered an incentive package to the company worth an estimated \$4 million. These incentives include the EDGE credit and job training assistance.

While the Michigan incentive package being offered does not completely fill this gap, the company cited several reasons why the Michigan location has advantages. These include better delivery performance, better employee availability, more dependable financial performance, low labor turnover and the Jackson facility is further advanced in adopting the "lean manufacturing" process than the Rockford facility.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide the company with an Economic Development Job Training (EDJT) grant of \$1,000 for each of the 119 new employees and \$500 for each of the current 142 employees, totaling \$190,000. In addition, the state will provide a 100% abatement

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of the 6-mill State Education Tax for a length of time to match the local property tax abatement. The estimated value of this state tax abatement is \$100,440.

Blackman Township will provide a 50 percent abatement of the company's personal property taxes for twelve years. The estimated value of this local abatement is \$422,244.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for ten years and a business activity credit of 100 percent for 10 years for up to 119 net new jobs.