



## MICHIGAN JOBS COMMISSION

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## MEMORANDUM

**DATE:** September 9, 1997  
**TO:** Michigan Economic Growth Authority  
**FROM:** Douglas E. Stites, Chief Operating Officer  
**SUBJECT:** Briefing Memo - Gerber Products Company

### COMPANY NAME:

Gerber Products Company  
445 State Street  
Fremont, Michigan 49413

### HISTORY OF COMPANY:

Gerber Products was established in Fremont, Michigan, in 1928. Until 1994, it was a publicly traded company. In 1994, it was purchased by Sandoz, a Swiss company, involved in pharmaceuticals and agricultural products. Gerber is now part of the Novartis companies, which was formed in 1996 by the merger of Ciba-Geigy Ltd. and Sandoz, Ltd.

Gerber's fortunes were buoyed by the baby boom following World War II. Since this generation has grown, increasing competition for a shrinking market has forced Gerber to expand its product line and target audience. Because of this aggressive product development and international marketing, the company feels that it is prepared for the next population spike that will occur around the turn of the century.

The company currently employs more than 1200 people in Fremont, Michigan. They also own facilities in Arkansas, North Carolina, and Wisconsin. Because of the competitive nature of this business, Gerber has been forced to make decisions regarding consolidation of the baby foods facilities. The company has decided to close the Asheville, North Carolina, facility and relocate that production to either Michigan or Fort Smith, Arkansas.

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**PROJECT DESCRIPTION:**

Gerber would like to expand either its Fremont, Michigan, or Fort Smith, Arkansas, food production facility. This expansion is expected to create 125 new jobs with an average weekly wage of \$508 and a benefit package of approximately 35 percent of wages. Capital investment in either facility will be approximately \$6 million in renovation costs, \$23 million for new or relocated machinery and equipment, and \$1.3 million in relocation costs. This new investment and jobs will support the processing and packaging of baby food. Gerber will be serving the United States market with these product lines. Production will begin with the summer 1998 season and will be fully operational and staffed at capacity by the summer of 1999.

To support this project in Fremont, significant infrastructure improvements to the sewage treatment system will be needed. The majority of the costs of this needed renovation and expansion will be covered by funding through the federal Community Development Block Grant program.

**BENEFIT TO STATE:**

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 373 jobs in the state by the year 2018. Total state government revenues through the year 2018, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$17,859,000 (1997 dollars) due to the presence of the Gerber facility.

**COST ANALYSIS:**

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Fort Smith, Arkansas, and Fremont, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Gerber Products to expand its manufacturing facility in Fremont, Michigan, rather than Fort Smith, Arkansas, is approximately \$760,000 over the term of the incentive. The cost differential is primarily attributable to utility and tax costs. Michigan Jobs Commission staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Arkansas.

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

The State of Michigan will provide Gerber with a 100 percent abatement of the six mill State Education Tax for a period of time to match the local property tax abatement. This tax abatement is estimated to be worth \$1.22 million over the term of the incentive. Economic Development Job Training funds will also be offered to the company at \$1,000 for up to 125 net new employees for a total of up to \$125,000. In addition, the State of Michigan will be providing Fremont a Community Development Block Grant worth up to \$2.1 million to upgrade waste water treatment infrastructure to the company.

The City of Fremont will provide a 50 percent property tax abatement for a period of 12 years worth approximately \$5.4 million.

#### **BUT FOR:**

Without the assistance offered by the MEGA program, Gerber Products would not expand their existing facility in Michigan for the following reasons:

1. Utility costs in Arkansas are half of what the company would be required to pay in Michigan.
2. Corporate taxes in Michigan will cost the company about \$550,000 more in Michigan because of losses in Arkansas from business operations and tax credit carry-forwards for those losses for at least 10 years.

#### **RECOMMENDATION:**

The Michigan Jobs Commission recommends a MEGA employment credit of 85 percent for a period of 20 years for up to 125 net new jobs, and a business activity credit of 85 percent for a period of 20 years.