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MEMORANDUM

Date: November 17, 2010
To: Michigan Economic Growth Authority
From: Phil Santer, Project Specialist
Packaging Team
Subject: Briefing Memo – Gerdau MacSteel, Inc.
Retention MEGA Credit

COMPANY NAME

Gerdau MacSteel, Inc.
5591 Morrill Road
Jackson, Michigan 49201

HISTORY OF COMPANY

Gerdau MacSteel, Inc. ("Gerdau MacSteel") is a subsidiary of Gerdau S.A., a publicly-traded producer of steel with operations throughout North and South America. MacSteel manufactures high-quality steel bar products for the automotive, heavy truck and other industries in North America. Gerdau MacSteel has operations in Michigan and Forth Smith, Arkansas. Their Michigan operations are located in Blackman Township, City of Lansing, City of Monroe, and Napoleon Township. Gerdau S.A. purchased the facilities in Monroe and Napoleon Township in 2008.

The company, including its subsidiaries Macsteel Monroe, Inc. and Macsteel Atmosphere Annealing Inc., currently has 908 full-time employees in Michigan.

PROJECT DESCRIPTION

Gerdau MacSteel and its subsidiary Macsteel Monroe, Inc. are considering new capital investment that will assist in the retention of their facilities in Blackman Township, Monroe and Napoleon Township. The capital investment is expected to leverage the existing assets at the Monroe facility and will help secure the long-term viability of the mill by allowing their Michigan operations to create higher-quality, higher value-added products and reach new market segments. The Blackman Township, Monroe and Napoleon

Township facilities work together in production and all facilities would significantly benefit from the capital investment.

Gerdau MacSteel plans to invest up to \$67 million and retain up to 778 jobs at their facilities in the Blackman Township, the City of Monroe and Napoleon Township. The average weekly wage for the retained jobs will be \$1,101. 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 2,005 jobs in the state by the year 2015. It is also estimated that the project would maintain total state government revenues through the year 2015, net of MEGA costs, of \$39.4 million (current dollars) due to the retention of this facility.

BUSINESS CASE

Gerdau MacSteel's manufacturing process requires a significant use of electricity, which makes this cost a driver of business activity. According to information from the U.S. Energy Information Administration, industrial electricity costs in Arkansas, where Gerdau MacSteel has another facility, is significantly lower than in Michigan (electricity is 21% lower in Arkansas). As a result, the company is seeking to offset this cost through a MEGA Tax Credit and other incentive tools.

OTHER STATE AND LOCAL ASSISTANCE

The City of Monroe is willing to consider approval of a property tax abatement under P.A. 198 of 1974 for up to 12 years. The estimated value of the abatement is \$7.5 million, according to the City's estimates.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends up to a 75 percent retention employment tax credit for five years for the 778 retained employees at the Blackman Township, Monroe and Napoleon Township facilities. To access the credit the company must:

- Make an initial investment of at least \$50,000 per retained job, but not less than \$19,450,000, for the 389 retained jobs to access the credit.
- Maintain at least 545 full-time employees at their facilities in Blackman Township, Monroe and Napoleon Township each year they claim the credit.