

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION



MEMORANDUM

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DATE: April 18, 2006
TO: Michigan Economic Growth Authority
FROM: Jim Donaldson, Vice President
Business Development
SUBJECT: Briefing Memo – Hess Industries, Inc.
Standard Credit

COMPANY NAME AND ADDRESS:

Hess Industries, Inc.
2950 Redfield Road
Niles, Michigan 49120

HISTORY OF COMPANY:

Hess Industries Inc., designs and builds sophisticated metal-forming equipment, welding equipment, and integrated manufacturing systems for Fortune 100 manufacturing companies in home appliances, consumer goods, HVAC and heavy industrial equipment, and automotive and automotive parts manufacturing. The company is owned by Monomoy Capital Partners, and is based in Michigan and Indiana, where it operates through three subsidiaries, Hess Engineering, Capitol Technologies and X-Cel Steel Fabricating. The company and affiliates currently employ 139 people in Michigan.

PROJECT DESCRIPTION:

Hess Industries desires to consolidate their operations in order to realize synergies and is proposing to relocate its Capitol Technologies division from Indiana to Michigan. To accommodate the consolidation, the company would expand their current operations in Milton Township (Niles) and transfer jobs and equipment from Indiana. The project would lead to the creation of 131 new jobs in Michigan, paying an average weekly wage of \$936. The alternative to consolidating operations in Michigan is to consolidate operations in Indiana.

The project would require an investment of \$4.5 million, including \$1.3 million for building additions and renovations, \$2.7 million for new and transferred machinery and equipment and computers, and \$500,000 for moving expenses related to the consolidation of facilities.

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BENEFITS TO STATE:

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, we estimate that this facility will create a total of 142 jobs in the state by the year 2011. We also estimate that the project will generate total state government revenues through the year 2011, net of MEGA cost and adjusted for inflation, of \$2.1 million (2006 dollars) due to the expansion of this facility.

BUT FOR:

In addition to Milton Township, Hess Industries is also considering their current facility in South Bend, Indiana for the consolidation of operations. The facility in South Bend could accommodate the consolidation without additional capital investment, saving the company \$1.2 million in building costs. In addition, the company would need to transfer fewer machines if consolidating to Indiana saving on the costs to relocate equipment. Operationally, the facilities have similar costs, however Indiana would provide savings in electrical utility costs of \$50,000 per year and unemployment insurance costs of \$60,000 per year.

OTHER STATE AND LOCAL ASSISTANCE:

Milton Township has proposed a 50 percent PA 198 tax abatement for the new real and personal property related to this project for 12 years. The estimated value of this abatement is \$299,000. Final tax abatement approval is expected by June, 2006.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a 100 percent employment tax credit for five years, for up to 131 new employees.