

John Engler, Governor

Doug Rothwell, Chief Executive Officer

MEMORANDUM

DATE: June 11, 1996

TO: Michigan Economic Growth Authority

FROM: Doug Rothwell *D. Rothwell*
Chief Executive Officer
and Department Director

SUBJECT: Briefing Memo - Hi-Lex Controls, Incorporated

COMPANY NAME:

Hi-Lex Controls, Incorporated
152 Simpson Drive
Litchfield, Michigan 49252

HISTORY OF COMPANY:

Hi-Lex Controls was founded in 1989 as a separate facility and subsidiary of Hi-Lex Corporation which has been in Battle Creek, Michigan since 1975. After a series of transactions, the current legal parent T.S.K. of America was established in November 1992. T.S.K. of America in turn is owned 100 percent by Nippon Cable System, Inc. of Takaruzuka, Japan. Hi-Lex Controls is located in Litchfield, Michigan and produces window regulators for the automotive industry. They presently employ 223 at the Litchfield location. Hi-Lex Corporation is located in Battle Creek, Michigan and also has a sales and engineering office in Bloomfield Hills, Michigan. Hi-Lex Corporation manufactures control cables for the auto industry. Total Michigan employment at all three locations is 732 people.



PROJECT DESCRIPTION:

Hi-Lex Controls, Incorporated has recently been awarded the GMT-800 truck business from General Motors. The vehicles are more commonly known as the Suburban, Tahoe, C/K Pick-up, Yukon and Crew Cab. Production start-up is scheduled for early 1998 for the 1999 model year. The company is considering an expansion of its existing 105,000 square foot facility in Litchfield or buying an available industrial building in Fort Wayne, Indiana. The company would invest approximately \$9.6 million, in addition to creating 197 new jobs over a three year period. The company is considering adding 58,500 square foot to its Litchfield plant or buying an 86,000 square foot plant in Fort Wayne, Indiana. The Fort Wayne facility is located 2 miles from one of the company's major customers, General Motors. The average weekly wage at this operation is approximately \$520. Total incremental payroll at full production is estimated to be \$5.5 million annually.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 561 new jobs in the state by the year 2007. Total state government revenues through the year 2007, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation costs, would be increased by \$14,332,000 (1996 dollars) due to the presence of the Hi-Lex Controls, Incorporated facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis of Fort Wayne, Indiana and Litchfield, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Hi-Lex Controls to establish their manufacturing facility in Litchfield, Michigan rather than Fort Wayne, Indiana ranges from approximately \$181,000 to \$415,000 over the term of the incentive. The cost differential is primarily attributable to taxes, land improvements, and the cost of financing the project. The interest cost of financing this project represents a majority of the differential because the company has maximized its Industrial Development Revenue Bond (IDRB) allocation of \$10 million in Litchfield, Michigan and not in Fort Wayne, Indiana. Michigan Jobs Commission staff have examined these numbers and believe they are a fair representation of the cost differential between Litchfield, Michigan, and Fort Wayne, Indiana.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will be providing a 100 percent abatement of the 6 mill school property tax for a period of 12 years worth up to \$216,000. Workforce development assistance at \$2,030 per new employee for up to 197 employees with a total value of \$400,000 will also be provided. Infrastructure development funding of up to \$300,000 will be available to the local community to provide needed services to the site chosen by the company.

Local tax abatements for a period of 12 years, estimated to be worth approximately \$774,000, will be offered to the company. Other local assistance includes donating 6.5 acres of industrial land to Hi-Lex Controls. The value of this offer is estimated to be approximately \$54,000. Additionally, Litchfield will provide funds through its Tax Increment Finance Authority to construct an access road on the property valued at \$80,000.

BUT FOR:

Without MEGA, Hi-Lex Controls, Incorporated will not locate in Litchfield, Michigan for the following reasons:

1. The company has identified an existing building in Fort Wayne, Indiana as opposed to constructing an addition to its plant in Litchfield, Michigan. The Litchfield property will require land improvements that the Fort Wayne property does not.
2. The tax structure in Indiana is slightly more favorable than in Michigan because Indiana's corporate tax is slightly less than Michigan's Single Business Tax.
3. Hi-Lex Controls is eligible for tax exempt industrial development revenues bonds in Indiana. They do not qualify for similar financing at the Litchfield site. This represents a difference in interest rates of 7.2 percent versus 4.5 percent in Indiana.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 50 percent for a period of 10 years for up to 197 net new employees.