

MEMORANDUM

DATE: November 9, 1999

TO: Michigan Economic Growth Authority Board

FROM: James Donaldson, Vice President
Michigan Business Development

SUBJECT: Briefing Memo - Jabil Circuit, Inc.

COMPANY NAME:

Jabil Circuit, Inc.
1700 Atlantic Boulevard
Auburn Hills, Michigan 48326

HISTORY OF COMPANY:

Jabil Circuit, Inc. was started as a Michigan company by Bill Morean, who is still Chief Executive Officer of the company. Jabil Circuit is a designer and manufacturer of electronic circuit boards and systems for international original equipment manufacturers. Jabil manufactures products for customers in personal computer, peripheral, communication, automotive and consumer markets. Jabil offers circuit design, board design from schematic, prototype assembly, volume board assembly and complete system assembly services. When the company originally started, it served primarily the automotive industry, but has since expanded its scope to include all areas of electronic circuit board design and assembly. Sales to the automotive industry now represent only 10 percent of the company's total sales. The company currently has two manufacturing plants in Michigan, both in Auburn Hills, totaling 170,000 square feet. The company's headquarters is based in St. Petersburg, Florida. Locations of other manufacturing facilities are: St. Petersburg, (400,000 square feet); San Jose, (180,000 square feet); Guadalajara, (150,000 square feet); Malaysia (150,000 square feet),

Briefing Memo
Jabil Circuit, Inc.
November 9, 1999
Page 2

Scotland (125,000 square feet) and two facilities recently purchased from Hewlett-Packard in Boise and Italy (size unknown but both plants are at full capacity).

PROJECT DESCRIPTION:

Due to an increase in contracts, and to accommodate anticipated future growth needs, the company finds it necessary to either expand an existing facility or build a new one. The company has narrowed its choices to two options. Option 1 would be to build a new 150,000 square foot manufacturing facility in Auburn Hills near its main facility there. Option 2 is to expand the company's Mexico facility.

This project would create 451 new jobs over the first three years of production. Investment in the new facility and equipment expenditures are estimated at \$38 million, and sales from the facility would be expected to reach \$388 million within two years. Average weekly wages would be \$565 and the employee benefit package averages 28% of wages. Construction is slated to begin in November of 1999 and end in March, 2002. Full production at the facility is slated for May 31, 2002.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 1,088 jobs in the state by the year 2019. Total state government revenues through the year 2019, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$48,072,000 (1999 dollars) due to the presence of the Jabil Circuit, Inc. facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Guadalajara and Auburn Hills. Based on figures obtained from the company, the annual cost disadvantage for Jabil Circuit, to establish its manufacturing facility in Auburn Hills rather than Guadalajara ranges from approximately \$6,500,000 to \$9,900,000 over the term of the incentive. The cost differential is primarily attributable to wage rates in Mexico being 25% of those in Michigan and tax rates in Michigan being over 200 times more than in Mexico. Michigan Economic Development Corporation staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Mexico.

Briefing Memo
Jabil Circuit, Inc.
November 9, 1999
Page 3

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide Jabil Circuit, Inc. 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 \$381,743 over the term of the incentive. Economic Development Job Training funds will also be offered to the company at \$500 for each of up to 451 net new employees for a total of \$225,500.

The City of Auburn Hills will provide a 50 percent property tax abatement for a period of 6 years worth approximately \$1,324,040.

BUT FOR:

Without the assistance offered by the MEGA program, Jabil Circuit, Inc. would not locate a new facility in Michigan because of the cost differential. However, although the MEGA incentive eliminates only a portion of the cost differential, the company says it tips the scales when it looks at other factors affecting this decision.

The company feels believes expanding the Michigan facility will position them well for getting new contracts in the automotive industry, as well as non-automotive contracts from the Midwestern region of the U.S. Also, the Michigan facility has a highly productive and talented workforce, requiring little or no direction from the corporate office. This makes the Michigan facility better able to be highly responsive to the needs of the customer, offering faster turnaround for project implementation. The Mexico facility, on the other hand, requires constant attention from corporate staff, so there are many hidden costs associated with the Mexico facility not identified in the cross-state comparison, as well as not offering potential customers the talent necessary for agile manufacturing.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 451 net new jobs, and a business activity credit of 100 percent for a period of 20 years.