



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: February 17, 2009
TO: Michigan Economic Growth Authority
FROM: Amy Deprez, Packaging Team Manager
Portfolio Management & Packaging
SUBJECT: Briefing Memo – K & S Wire Products, LLC
Standard MEGA Credit

COMPANY NAME:

K & S Wire Products, LLC
432 E. Main Street
Hudson, Michigan 49247

HISTORY OF COMPANY:

K & S Wire Products is a new venture that will manufacture primarily steel wire shopping carts, with a secondary plastic shopping cart product line anticipated. The company is hoping to capitalize on a void in the marketplace created by the recent demise of the two largest cart makers. Tim Smith, the president of K&S, was the plant manager at a Battle Creek cart maker and is also a "lean manufacturing" expert. His experience and expertise will lend to the success of the new venture. Typically, the cart makers utilized very large and expensive facilities to fulfill multi-thousand cart orders with very little provision for custom orders or the lean manufacturing process. Mr. Smith believes that the business can be run with a much smaller facility, while still accommodating large and small production runs.

Capture of the orphan shopping cart market, created by the closure of the two large producers, is time critical and an important part of the proposed project. Each manufacturer has a unique design and only like manufacturers can "nest" (stack together). Retailers that have carts that were produced by these two closed cart makers are unable at this time to enhance their fleet, without utilizing a different manufacturer and replacing their existing fleet.

K & S currently has no presence in Michigan.

PROJECT DESCRIPTION:

K & S Wire Products, LLC proposes manufacturing steel wire shopping carts in Hudson, Michigan. Additionally, the company is considering additional phases including a plastic cart product line, in-house powder coating, and refurbishment of used carts.

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The company has identified a potential Michigan location in Hudson and plans to invest \$1.2 million over the next five years, including purchase of shopping cart manufacturing equipment from one of the closed manufacturers. The project will result in the creation of 157 jobs, paying an average weekly wage of \$425. The company will also offer health care benefits and pay a portion of the benefit costs.

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 generate a total of 356 jobs in the state by the year 2015. Total state government revenues through the year 2015, net of MEGA costs, would be increased by \$6.8 million (current dollars) due to the presence of this expansion.

BUSINESS CASE:

Alternatively, the company is considering Fulton County, Ohio for this project. The Ohio site is a single building that can accommodate all five years of the company's projected growth, while the Michigan site is a series of three buildings. Coordination of operations will be more complex and costly with the Michigan layout over the Ohio single site layout.

Additionally, the Ohio building has an existing tenant that provides powder coating services, which is an integral part of K & S' manufacturing process. For the first two years, the Michigan site would require outsourcing this function, until a year three investment to bring this process in house is realized. The Ohio layout would allow for a cost savings to K & S by partnering with the powder coating tenant and forgoing the equipment purchase and additional shipping costs.

In addition, the Ohio location can abate the local income tax and save the company on real property taxes.

OTHER STATE AND LOCAL ASSISTANCE:

The City of Hudson is supportive of this project and anticipates approval of a property tax abatement (PA 198) within the next 60-90 days. The approximate value of this incentive is not known at this time. In addition, Lenawee County's Revolving Loan Fund is considering a \$200,000 working capital loan as a potential funding source for this project.

RECOMMENDATION:

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent standard employment tax credit for seven years, for up to 157 net new employees, over an established employment base of zero.