

MEMORANDUM

Date: February 25, 2010

To: Michigan Economic Growth Authority

From: Amy Deprez, Manager
Packaging Team

Greg West, Project Specialist
Packaging Team

Subject: Briefing Memo – Katcon USA, Inc.
High-Technology MEGA Credit

COMPANY NAME

Katcon USA, Inc.
1700 Harmon Road, Suite 3
Auburn Hills, Michigan 48326

HISTORY OF COMPANY

Katcon, founded in Monterrey, Mexico in 1993, is a global supplier of catalytic converters, exhaust modules and complete exhaust systems. In 2007 when Delphi closed its manufacturing operations in the United States, all manufacturing was transferred to Katcon in Monterrey. This transfer made the company Delphi's largest catalytic converter manufacturer. In 2008 Katcon purchased Delphi's entire exhaust global business, and in 2009 Katcon USA, Inc. was created to service former Delphi customers.

Katcon USA, Inc. currently has 11 employees in Michigan.

PROJECT DESCRIPTION

This project is the creation of a new technical center in Auburn Hills. The technical center will be responsible for all worldwide research and development for Katcon. Some of the areas of focus will be on the development of emission control solutions, nanotechnology related to improving noble metal utilization, alternate material studies that will improve product and cost performance objectives, and examining future emission trends and developing gasoline and diesel solutions not yet available in the market.

The project would begin at Katcon's current leased facility in Auburn Hills, and would then relocate, within 18 months, to a new purchased facility also in Auburn Hills. The new facility will be approximately 20,000 square feet and will require renovations and possible infrastructure upgrades.

Katcon USA, Inc. will invest approximately \$3.7 million and create 35 jobs over the next five years as a result of this project. The average weekly wage for the newly created jobs will be \$1,442. 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 generate a total of 74 jobs in the state by the year 2016. Total state government revenues through the year 2016, net of MEGA costs, would be increased by \$1.4 million (current dollars) due to the presence of this facility.

BUSINESS CASE

Katcon is currently considering both Auburn Hills and Monterrey, Mexico as potential locations for this project. If the project were to locate in Monterrey the company would experience significant savings because of the large contrast in wages and benefits. However, locating the project in Auburn Hills would allow Katcon to be located closer to their customers and would give them the ability to more easily collaborate with potential new suppliers. Michigan also offers the company access to top engineers and automotive category experts. The MEGA tax credit would help the company offset additional costs associated with the project and enable them to reinvest in research and development and training.

In addition to the technical center, Katcon is also considering where to locate a potential manufacturing facility that they would like to locate near the technical center. Establishing the technical center in Auburn Hills would help support their decision to locate the manufacturing facility in Michigan as well.

OTHER STATE AND LOCAL ASSISTANCE

The City of Auburn Hills is supportive of this project and anticipates the approval an 8 year PA 198 tax abatement. The estimated value of this incentive is not known at this time.

QUALIFYING HIGH-TECHNOLOGY ACTIVITY

The company is a qualified high-technology business, whose primary business activity is Advanced Automotive, Manufacturing and Materials Technology, as defined in the Act.

The company is not qualifying with the 10 percent research and development requirement.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 75 percent high-technology employment tax credit for 7 years for up to 35 net new employees in excess of the company's established base of 12.