

MEMORANDUM

Date: August 17, 2010

To: Michigan Economic Growth Authority

From: Robert Wilson, Project Specialist
Packaging Team

Subject: Briefing Memo – KOSTAL Kontakt Systeme, Inc.
High Technology MEGA Credit

COMPANY NAME

KOSTAL Kontakt Systeme, Inc.
1350 Hamlin Road
Rochester Hills, Michigan 48309

HISTORY OF COMPANY

KOSTAL Kontakt Systeme, Inc. is a newly created entity under the KOSTAL group of companies (KOSTAL). KOSTAL is an independent, family owned group of businesses that was founded in 1912 in the German town of Luedenscheid, where the headquarters still remain. The Group's main activities include the development and manufacturing of technologically advanced electronic and electromecanic (mechatronic) products. Worldwide important industrial companies, including all the world's leading automotive manufacturers and their suppliers are included in KOSTAL's customer base. KOSTAL has 31 locations worldwide, with a work-force of about 10,000 people.

KOSTAL is divided into four main Business Divisions: Automotive Electrics, Industrial Electronics, Connectors and Test Equipment. The Connectors and Industrial Electronics divisions are the areas affected by the new project.

KOSTAL also has a related Michigan business in Troy, KOSTAL of America, Inc. (KOA). KOA currently has 106 full-time employees. The entities included in this project have no legal affiliation with and will operate independently from KOA. KOA was a recipient of a MEGA tax credit for the Troy project.

Both KOSTAL Kontakt Systeme, Inc. and KOSTAL Industrial Electronics Inc. are new entities and have no Michigan presence.

PROJECT DESCRIPTION

The intention of the project is to increase market share in North America for the Industrial Electronics and Connectors Divisions of KOSTAL. To support this approach KOSTAL has founded two new companies: KOSTAL Kontakt Systeme, Inc. and KOSTAL Industrial Electronics, Inc. KOSTAL is planning to relocate the existing production of its Connector Systems used for Renewable Energy (Solar Cells, Voltage Converters etc.) and Green Energy (Batteries, Hybrid and fully Electrical Vehicles) from their current production locations in Germany and Mexico to the newly created company KOSTAL Kontakt Systeme, Inc. KOSTAL also plans to relocate the production of its Junction Boxes (used to connect Solar Panels) from its current production location in Germany to KOSTAL Industrial Electronics, Inc. Both entities will be consolidated to a single facility in Rochester Hills.

The company plans to invest approximately \$27.1 million and create 247 jobs over the next five years, with 125 jobs projected in year 1, as a result of this project. The average weekly wage for the newly created jobs is anticipated to be \$694. 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 642 jobs in the state by the year 2018. Total state government revenues through the year 2018, net of MEGA costs, would be increased by \$14,782,892 (current dollars) due to the presence of this facility.

BUSINESS CASE

KOSTAL evaluated the proposed investment relative to a site in Queretaro, Mexico, where they identified a cost gap consisting of higher real estate costs in Michigan, higher wage and benefit costs in Michigan, and property and state income taxes in Michigan which do not exist at the Mexico location. The MEGA tax credit will help in part to offset the disadvantages associated with a Rochester Hills, Michigan location.

OTHER STATE AND LOCAL ASSISTANCE

The City of Rochester Hills is supportive of this project and plans to consider property tax abatement through P.A. 198 of 1974 for up to 12 years. The value of this abatement is not known at this time.

QUALIFYING HIGH-TECHNOLOGY ACTIVITY

The company is a qualified high-technology business, whose primary business activity is Advanced Vehicles 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 100 percent high-technology employment tax credit for 7 years for up to 247 net new employees in excess of the company's established base of 0. Qualified new jobs will be created by the applicant company, KOSTAL Kontakt Systeme, Inc., or the associated company KOSTAL Industrial Electronics, Inc.

Further, the companies must create and maintain a total of at least 175 qualified new jobs by the end of year 5 to qualify for years 6 and 7 of the credit. Failure to do so will result in the termination of the tax credit at year 5.