

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: March 13, 2007

TO: Michigan Economic Growth Authority

FROM: Jim Donaldson, Vice President
Business Development



SUBJECT: Briefing Memo – Kostal of America, Inc.
High-Technology MEGA Credit

EXECUTIVE COMMITTEE
MATTHEW P. CULLEN
Chair
General Motors

COMPANY NAME AND ADDRESS:

WILLIAM H. POWER
Vice-Chair
HCN, Inc.

Kostal of America, Inc.
25325 Regency Drive
Novi, Michigan 48375

MES C. EPOLITO
President & CEO

HISTORY OF COMPANY:

CHARLES E. BLOUSE JR., CCE
Detroit Regional Chamber

JOHN W. BROWN
Stryker Corporation

DAVID E. COLE
Center for
itive Research

JOHN W. BROWN
Saginaw Future Inc.

HAIFA FAKHOURI
Arab American and
Chaldean Council

TEVEN K. HAMP
Ann Arbor

AYDEN H. HARRIS
EDF Ventures

PAUL HILLEGONDS
DTE Energy Company

GEORGE JACKSON JR
Detroit Economic Growth
Corporation

MICHAEL J. JANDERNOA
Bridge Street Capital
Partners, LLC.

ROBERT B. JONES
City of Kalamazoo

IRGIT M. KLOHS
The Right Place, Inc.

THOMAS LEWAND
Bodman LLP

R. IRVIN D. REID
Wayne State University

MICHAEL B. STAEBLER
Pepper Hamilton LLP

ROBERT W. SWANSON
Michigan Department of Labor
& Economic Growth

ENNIS R. TOFFOLO
Oakland County

DETER S. WALTERS
an Industries Corp.

Kostal of America, Inc., located in Novi, Michigan, is part of The Kostal Group, which is a technology focused, family owned company. The Kostal Group's headquarters are located in Luedenscheid, Germany, where it is was founded in 1912. Their main activities include the development and manufacturing of technologically advanced electronic and electromechanical (mechatronic) products for the automotive industry. They have 22 locations worldwide, with a global workforce of around 10,500 employees. Kostal of America, Inc. employs 86 associates in Michigan.

PROJECT DESCRIPTION:

The Kostal Group anticipates opening three international research and development centers of excellence. One research and development center will be located in each of the following locations: Germany, Asia and within the NAFTA Region. Kostal of America, Inc. will organize, operate and be responsible for the Kostal Group's research and development center for the NAFTA region.

The proposed research and development center will be an expansion and relocation of its current operation. Kostal of America, Inc. expects to hire up to 203 new employees over the next five years at an average weekly wage of \$1,549. Capital investment for this project is expected to be approximately \$13.6 million, including the purchase and improvements of a building, furniture, fixtures, and machinery and equipment.

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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 192 jobs in the state by the year 2017. Total state government revenues through the year 2017, net of MEGA costs and adjusted for inflation, would be increased by \$3.8 million (2007 dollars) due to the presence of this facility.

BUSINESS CASE:

Kostal of America, Inc. is considering relocating its current Novi operation and proposed research and development center to Troy, Michigan, or moving it to Waterloo, Ontario, Canada. When comparing the Michigan and Waterloo locations, the company estimates that wage rates in Waterloo are significantly lower.

OTHER STATE AND LOCAL ASSISTANCE:

The City of Troy has proposed a 50 percent abatement under PA 198 for 12 years for personal property. The estimated value of this abatement is \$255,180. Troy City Council anticipates approving this abatement in April 2007.

In addition, the Michigan Economic Development Corporation will provide job training assistance of up to \$203,000, or up to \$1,000 per employee, for up to 203 new or existing employees through the Economic Development Job Training program.

QUALIFYING HIGH-TECHNOLOGY ACTIVITY:

The company is a qualified high-technology business, whose primary business activity is product research and development, as defined in the Act.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a 100 percent high-technology employment tax credit for 10 years, for up to 203 net new employees.