

**MEMORANDUM****DATE:** July 12, 2000**TO:** Michigan Economic Growth Authority**FROM:** James Donaldson, Vice President
Michigan Business Development**SUBJECT:** Briefing Memo - Lakeside Machine, Inc.**COMPANY NAME AND ADDRESS:**

Lakeside Machine, Inc.
P. O. Box 151
Gladstone, Michigan 49837

HISTORY OF COMPANY:

Lakeside Machine, Inc. was incorporated in Michigan in 1975 and is a supplier of machined parts to the construction equipment, mining, automotive and agricultural industries. Primary customers are Caterpillar, Case, General Motors, Ford, Honda, Allied Signal, Navistar and Allison. The company currently has 128 employees in Gladstone, Michigan.

DESCRIPTION OF PROJECT:

Due to new business opportunities, the company needs to expand its production capacity. Its existing facility in Gladstone is landlocked and cannot be expanded. Therefore, the company is looking at either constructing a new facility in the City of Gladstone's industrial park, or to move the entire company to an available existing building in Burlington, Iowa.

The proposed new building in Gladstone would require an investment by the company of \$3.6 million in building costs and \$5.5 million in machinery and equipment, for a total investment of \$9.1 million. Construction would begin in October 2000 and production at the new facility would begin in June 2001. The company anticipates creating up to 90 new jobs at the facility by the end of 2003. Average weekly wages would be \$610 and the company would offer workers a benefit package totaling approximately 25 percent of wages.

Vernor John Engler
GENERAL CHAIR

Greg Rothwell
PRESIDENT & CEO

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BENEFIT TO THE STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 276 jobs in the state by the year 2010. Total state government revenues through the year 2010, net of MEGA costs and adjusted for inflation, would be increased by \$6,353,000 (2000 dollars) due to the presence of this facility.

COST ANALYSIS:

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Gladstone, Michigan and Burlington, Iowa. Based on figures obtained from the company, the cost disadvantage for Lakeside Machine, Inc. to locate this expansion in Michigan rather than Iowa amounts to approximately \$781,000 annually over the term of the incentive.

The most significant factor in this differential is wages, which are approximately 15 percent lower in Iowa. Also, Iowa has a very favorable corporate tax system which would exclude Lakeside Machine, Inc. from any tax liability. The Michigan Economic Development Corporation has reviewed these cost differentials and feel they are accurate.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide Lakeside Machine, Inc. a 100 percent abatement of the six-mill State Education Tax for a length of time to match the local property tax abatement. It is estimated that the value of this abatement will be \$234,126. In addition, the state will offer job training assistance of \$500 each for up to 90 net new jobs, or up to \$45,000.

The City of Gladstone will be providing the company with a 50 percent abatement of real and personal property taxes for a period of 12 years, estimated to be worth up to \$1,083,397. The city is also donating land worth \$140,000 to this project.

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BUT FOR:

Although we are not able to completely fill the cost differential for this project, the company has stated several reasons for wanting to stay in Michigan. First, it has a highly productive workforce with good work ethics, which would be difficult to replicate elsewhere. Also, the company realizes that some intangible costs would incur in attempting to get another facility started out of state, such as a talent drain, business disruption and perhaps duplicative operating costs. The company has indicated that the offer made by the state and local governments will be enough to tip the scales in favor of Michigan for this project.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 90 net new jobs for a period of nine years and a business activity credit of 100 percent for a period of nine years.