MICHIGAN
Economic Development
Corporation

MEMORANDUM

Date: January 18, 2011

To: Michigan Economic Growth Authority

From: Phil Santer, Project Specialist
Packaging Team

Subject: Briefing Memo – MTU Detroit Diesel, Inc.
Standard MEGA Credit
Retention MEGA Credit

COMPANY NAME

MTU Detroit Diesel, Inc.
13400 West Outer Drive
Detroit, Michigan 48239

HISTORY OF COMPANY

MTU Detroit Diesel, Inc. ("MTU") manufactures, sells and services diesel engines and propulsion systems for off-highway applications like shipping, rail, defense vehicles and power generation systems. MTU's North American history traces their history to 1937 and GM's diesel division, which later became Detroit Diesel. In 2006, Detroit Diesel and MTU split to focus on their core efforts. Tognum AG, a global off-highway diesel engine producer, now owns MTU. MTU currently has facilities in Michigan, Ohio and South Carolina, as well as sales representatives throughout the United States.

The company currently employs 245 people in Michigan.

PROJECT DESCRIPTION

MTU is currently conducting a review of its business sites to determine strategic locations for its headquarters, logistics center and training facility. In March 2010, MTU announced it is opening a manufacturing facility in Aiken, South Carolina. As a result, the company now owns land in South Carolina which could serve foundation for the creation of a company campus. The campus would combine their headquarters, assembly and manufacturing into a single location. In addition, the company has expiring lease agreements with its headquarters, logistics and training centers.

The project presented to staff would allow the company to retain its headquarters in Michigan while relocating their logistics center from Stark County, Ohio to the Charter Township of Brownstown in Wayne County. In addition, the company could site their training facility in Michigan.

MTU plans to invest approximately $32 million, retain 245 jobs and create up to 115 new jobs over the next five years. The average weekly wage for the retained jobs is anticipated to be $1,104, while the average weekly wage for the newly created jobs is anticipated to be $659. 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 retain a total of 640 jobs and create a total of 181 jobs in the state by the year 2018. It is also estimated that the project would maintain $16.7 million (current dollars) in total state government revenues, net of MEGA costs, by the year 2018. In addition, this project would add $3.5 million (current dollars) in revenue due to the proposed growth of this company in Michigan.

BUSINESS CASE

As discussed above, the company has existing land available for the company to create a campus in Aiken, South Carolina. This option is attractive due to the inherent increased efficiencies of a single location. In addition, the company has found qualified employees at lower wage rates with their recent manufacturing expansion in South Carolina. The company is also considering a southern location like Atlanta, Georgia for its logistics center, which offers an accessible international airport. A MEGA Tax Credit would allow the company to mitigate some of the benefits found in South Carolina and elsewhere for this project.

OTHER STATE AND LOCAL ASSISTANCE

The Charter Township of Brownstown is supportive of the project and is willing to consider a tax abatement under P.A. 328 of 1998 for up to 12 years, or the length of the facility's lease. In addition, staff anticipates future local support for their headquarters and training center.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends approval of a 100 percent standard employment tax credit for eight years for up to 115 new employees, above their base of 257, provided that:

- The company creates and maintains at least 80 Qualified New Jobs in years six, seven or eight of the credit; otherwise that credit year, and any remaining credit years, will be forfeited.

In addition, staff recommends approval of up to 100 percent retention employment tax credit for eight years for the 245 retained employees in Michigan, provided that:

- The company maintains at least 200 employees in the state of Michigan, failure to do so would make the company ineligible to take advantage of the credit in that year;
- The company makes an initial capital investment of at least $7.8 million to activate the credit.