



MEMORANDUM

DATE: December 3, 1999

TO: Michigan Economic Growth Authority Board

FROM: James Donaldson, Vice President
Michigan Business Development

SUBJECT: Briefing Memo - Meritor Light Vehicle Systems

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COMPANY NAME:

Meritor Light Vehicle Systems
747 Advance Street
Brighton, Michigan 48116

HISTORY OF COMPANY:

Meritor Roof Systems, a subsidiary of Light Vehicle Systems, was established in 1997 as a spin-off from Rockwell International. Meritor Roof Systems is headquartered in Frankfurt, Germany and operates in six countries. It is the second largest global supplier of sun roofs.

PROJECT DESCRIPTION:

Due to an increase in contracts, and to accommodate anticipated future growth needs, the company finds it necessary to expand its operation. The company currently leases two buildings in Brighton and has outgrown these. The company has decided that it will build a new facility to accommodate sunroof assembly operations as well as sub-assembly manufacturing for its new encapsulated glass product line. Much of its customer base is located in southern United States automotive assembly plants and therefore Meritor is considering expanding near its new Manning, South Carolina facility.

This project will create 166 new jobs over a five-year period. Investment in the new facility and equipment is estimated at \$52.2 million. Sales from the facility are expected to reach \$119 million within three years. Average weekly wages will be \$386 and the employee benefit package averages 35 percent of wages. New hiring will start in 2000, with full production slated for June 1, 2001.

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BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 535 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 \$23,836,000 (1999 dollars) due to the presence of the Meritor Roof Systems facility

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Manning, South Carolina and Detroit. Based on figures obtained from the company, the cost disadvantage for Meritor Roof Systems, Inc., to establish its new manufacturing operation in Detroit rather than Manning is roughly \$2.5 million annually over the term of the incentive. The cost differential is primarily attributable to wage rates and transportation costs in South Carolina being lower than those in Michigan as well as lease rates in Michigan being higher than in South Carolina. The annual occupancy cost advantage of \$1.8 million in rural Manning, South Carolina was not considered in the negotiations because the company chose an expensive Detroit location rather than a comparable rural Michigan site. However, an annual cost disparity of \$500,000 to \$700,000 remains. Michigan Economic Development Corporation staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and South Carolina.

OTHER STATE AND LOCAL ASSISTANCE:

Economic Development Job Training funds will also be offered to the company at \$600 per employee for up to 166 net new employees, as well as \$600 for up to 144 existing employees, for a total of \$186,000. The state will also provide a 100 percent abatement of the six-mill State Education Tax, valued at \$914,835.

The proposed Michigan site is located in a Renaissance Zone within the City of Detroit. For the first four years of this project, the company will not be paying Detroit any local property taxes except debt service millage of 15.35 mills. In year 5 the millage rate will go up to 16.16 mills, in year 6 to 24.65 mills, and in year 7 to 33.13 mills.

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*Local only a minority
No mention of
State contribution*

The city of Detroit has agreed to provide property tax abatement after phase-out of the Renaissance Zone benefits, keeping the company's millage rate at 50 percent. The total estimated property tax savings to the company is \$6,729,389.

BUT FOR:

Without the assistance offered by the MEGA program, Meritor Roof Systems, Inc., would not locate a new facility in Michigan because of the cost differential. Although the MEGA incentive eliminates only a portion of the cost differential, the company says it tips the scales when it looks at other factors affecting this decision.

The company wants to create a showcase facility which will be highly visible to current and potential customers. Meritor Roof Systems feels that a Michigan location will better accommodate this project requirement. Meritor Roof Systems purchases 75 percent of its components from outside vendors. A Michigan location will enable them to stay closer to their current supply base.

Meritor Light Vehicle Systems has a corporate strategy including "Social Responsibility" as an overarching goal. Meritor Roof Systems feels that being a part of the revitalization of the city of Detroit represents a clear alignment with this corporate value.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for a period of 15 years and 50 percent for a period of three years for up to 166 net new jobs, as well as a business activity credit of 100 percent for 10 years beginning in year 6 through year 15.