MEMORANDUM

Date: March 15, 2011

To: Michigan Economic Growth Authority

From: Stacy Bowerman, Project Specialist
Packaging Team

Subject: Briefing Memo – Michigan Iron Nugget LLC
Rural MEGA Credit

COMPANY NAME

Michigan Iron Nugget LLC
1100 Superior Avenue East, Suite 1500
Cleveland, Ohio 44114-2544
www.cliffsnr.com

HISTORY OF COMPANY

Michigan Iron Nugget LLC ("MIN"), established in 2007, is a joint venture between Cliffs Natural Resource Inc. ("Cliffs") and Kobe Steel, Ltd. ("Kobe Steel"). MIN was formed to produce high-iron-content nuggets through a patented process to serve markets not presently accessible with the traditional iron ore pellets currently produced by Cliffs. As a recently formed entity, MIN does not have any existing employees in Michigan.

Founded in 1847 as the Cleveland Iron Company, Cliffs is an international mining and natural resource company organized through three geographic business units: North American, Asia Pacific, and Latin American. Cliffs is the largest producer of iron ore pellets in North America with six iron ore mines in Michigan, Minnesota and Canada as well as six coal mines in West Virginia and Alabama. Cliffs and its related entities currently have 1,626 employees in Michigan's Upper Peninsula.

Kobe Steel, headquartered in Japan, operates in a wide range of industries and produces materials like iron, steel, welding aluminum, copper, industrial and construction machinery and engineering and environmental services. Kobe Steel was founded in 1905 and currently employs more than 10,000 people globally.

PROJECT DESCRIPTION

MIN plans to produce the high-iron-contents nuggets at a new facility in Tilden Township, Marquette County. The iron reduction plant will use Kobe Steel's iron production technology to convert Cliff's iron oxide concentrates into metallic iron nuggets. The iron nugget product will be sold as a basic raw material for the iron and steel industries.

MIN plans to invest approximately $20 million for the construction of a new facility along with $260 million for new machinery and equipment related to the project. The company plans to create up to 114 jobs paying an average weekly wage of $1,160. 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 294 jobs in the state by the year 2016. Total state government revenues through the year 2016, net of MEGA costs, would be increased by $10.7 million (current dollars) due to the presence of this facility.

BUSINESS CASE

MIN is also considering this investment for northeastern Minnesota, northern Ohio, northwestern Indiana or the southern Gulf states. The company cited transpiration and raw material/product handling costs as the primary disadvantage of locating in Michigan. While Minnesota, Ohio and Indiana have the advantage of lake vessel transport directly for raw material supply or direct in-plant supply, the Michigan and southern Gulf locations both require immediate handling of raw materials and product by either rail or truck. In addition to transport, the company also cited high-energy costs as a disadvantage of locating in Michigan. The existing mines and Michigan workforce combined with local and state support of the project were taken into consideration when determining where to locate this new facility.

OTHER STATE AND LOCAL ASSISTANCE

Tilden Township is supportive of this project and anticipates approval of a property tax abatement under Public Act 198 of 1974 for a period of up to twelve years. The anticipated value of this abatement is estimated to be worth up to $8 million.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent rural employment tax credit for six years for up to 114 net new employees in excess of the company's established base of 1,601, provided the company create a minimum of 80 new jobs in years three through six. Failure to do so will result in the forfeiture of the credit for that year.