

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: October 14, 2003

TO: Michigan Economic Growth Authority

FROM: Jim Donaldson, Vice President
Michigan Business Development

SUBJECT: General Motors Nodular Iron Redevelopment Project,
City of Saginaw

- Corvus Nodular Interests, LLC. (Brownfield SBT Credit)
- CMI-Schneible, Company (MEGA Credit)
- Machining Enterprises, Inc. (MEGA Credit)
- Michigan Production Machining, Inc. (MEGA Credit)
- B&W of Michigan, Inc.

BRIEFING DESCRIPTION

This briefing memo will describe a significant project in the city of Saginaw that will redevelop the former General Motors Nodular Iron site. The project involves numerous companies including Corvus Nodular Interests, LLC, the developer of the project, and four potential General Motors suppliers: Machining Enterprises, Inc; CMI-Schneible Company; Michigan Production Machining, Inc; and B&W of Michigan, Inc. The board is being asked to provide a Brownfield SBT credit to the developer and four lessees (suppliers), for their eligible investment, as well as MEGA tax credits to three of the four suppliers.

PROJECT DESCRIPTION

The GM Nodular Iron Redevelopment Project will redevelop the former General Motors Nodular Iron site in the city of Saginaw. The project will lead to the construction of a new Gen IV Block Finishing facility to service the aluminum V8 GM Saginaw Metal Casting operation. Specifically, the site will house a new 150,000 to 240,000 square foot facility that will provide finishing, heat-treating and pre-machining services. The redevelopment will be lead by Corvus Nodular Interests, LLC, who will develop the project and own the facility being constructed. Once constructed, up to four GM suppliers will co-locate within the facility, fully integrating their materials handling systems to facilitate part conveyance and tracking. The project will lead to the creation of approximately 150 new jobs. Capital investment for the project will be \$60 million, including \$16 million for the new building and \$44 million for new machinery and equipment. The suppliers will need to be in the facility by June 2004, with full production scheduled to commence in January 2005.

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PUBLIC BENEFIT

This project should lead to improved cost competitiveness for the General Motors facilities in Saginaw. The new investment generated by the redevelopment will not only create new jobs, but more importantly, will help secure existing jobs and the future viability of General Motors facilities in Saginaw. Directly, this project will bring \$60 million in private investment to the city of Saginaw and create approximately 150 new jobs in the community, which currently has an unemployment rate of 18%. The project will transform an idle contaminated site into a productive facility, including remediation of existing contamination.

BROWNFIELD SINGLE BUSINESS TAX COST BREAKDOWN

The eligible investment to be undertaken by Corvus Nodular Interests, LLC and unknown lessees include:

New Construction	\$ 16,000,000
New Machinery, Equipment and Fixtures	\$ <u>44,000,000</u>
Project Total	\$ 60,000,000

BROWNFIELD PROJECT ELIGIBILITY

The property, a former industrial facility, is a facility and is located within the boundaries of the city of Saginaw, a qualified local governmental unit. The project is the subject of a brownfield plan approved October 6, 2003, and Corvus Nodular Interests, LLC is a qualified taxpayer.

MEGA TAX CREDITS

In addition to the Brownfield SBT credits, three of the four suppliers involved in the project are seeking MEGA jobs creation tax credits. Due to the location of this project in a Renaissance Zone, the suppliers have to create 25 net new jobs at the project site to qualify for the MEGA credit. The three suppliers seeking MEGA tax credits are Michigan Production Machining, CMI-Schneible and Machining Enterprises. The fourth supplier, B&W of Michigan does not meet the job creation requirements and therefore is not eligible to apply for the MEGA credit.

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Michigan Production Machining

Michigan Production Machining was incorporated in 1973 and is a full service precision production machine company with the capabilities to turn, mill, broach, induction harden and gear cut product. The company will occupy approximately 50,000 square feet in the facility, invest approximately \$7.1 million in new machinery and equipment, and create 25 new jobs paying an average weekly wage of \$464. The company currently has 310 employees in Michigan at their current facility in Macomb Township.

CMI- Schneible

CMI-Schneible was created in 1990, when the Schneible Company assets were acquired by CMI and CMI-Schneible was formed. The company plans to principally provide cleaning, degating, grinding, and inspection of large aluminum castings. The company will occupy approximately 60,000 square feet in the facility, invest approximately \$4.5 million in new machinery and equipment, and create 41 new jobs paying an average weekly wage of \$490. The company currently has 36 employees in Michigan at their current facility in Holly.

Machining Enterprises

Machining Enterprises is a full service Tier 1 supplier that has supplied the automotive industry since the mid-1960s. Current services and parts provided are complete product design, prototyping and testing for motor mounts, control arm brackets, specialized brackets, intake manifolds, exhaust manifolds, pre-machining qualifying and testing of cylinder heads and cylinder blocks. The company plans to occupy approximately 60,000 square feet in the facility, invest approximately \$19.5 million in new machinery and equipment, and create 48 new jobs paying an average weekly wage of \$603. The company currently has 72 employees in Michigan at their current facilities in Warren and Saginaw.

MEGA BUT FOR

General Motors, the developer, and the suppliers of this project completed a comprehensive financial analysis of this redevelopment project. Without the MEGA tax credits under consideration, this project would not go forward in Michigan. General Motors will make the ultimate location decision on this project, however without the MEGA tax credits the suppliers will not be able to provide General Motors with the required cost savings necessary to make this project viable. The high costs associated with the Brownfield site, as well as

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operational costs disadvantages make the MEGA credit necessary for this project to succeed in Saginaw, otherwise this work would be sent to Kitchener, Ontario, Canada.

Michigan Production Machining

With out the MEGA tax credit, Michigan Production Machining would not locate this project in Saginaw because they would not have the ability to meet the price requirements to successfully bid on this business. Additionally, when comparing this location to Kitchener, Michigan Production Machining found a wage differential of approximately 10 percent or \$65,000 per year and building costs that are lower by 30 percent.

CMI- Schneible

With out the MEGA tax credit, CMI-Schneible would not locate this project in Saginaw because they would not have the ability to meet the price requirements to successfully bid on this business. Additionally, when comparing this location to Kitchener, CMI-Schneible found a wage differential of approximately 10 percent or \$105,000 per year and building costs that are lower by 30 percent.

Machining Enterprises

With out the MEGA tax credit, Machining Enterprises would not locate this project in Saginaw because they would not have the ability to meet the price requirements to successfully bid on this business. Additionally, when comparing this location to Kitchener, Machining Enterprises found a wage differential of approximately 10 percent or \$150,000 per year and building costs that are lower by 30 percent.

BENEFIT TO STATE

According to the economic analysis completed by the University of Michigan, we estimate this project will generate a total of 486 jobs in the state by the year 2014. Total state government revenues through the year 2014, net of MEGA costs and Brownfield SBT costs, and adjusted for inflation, would be increased by \$11.9 million (2003 dollars) due to the presence of this facility.

OTHER STATE INCENTIVES AND LOCAL ASSISTANCE

The site being considered for this project is located within the boundaries of the Saginaw Northeast Renaissance Zone. The Renaissance Zone designation for this site expires in 2014. With this designation, the suppliers included in this project will benefit in both property tax savings and Single Business tax savings due to the Renaissance Zone designation. The estimated value of the Renaissance Zone benefit:

<u>Company</u>	<u>Property Tax Savings</u>	<u>SBT Savings</u>
Michigan Production Machining	\$1,474,200	\$90,300
CMI-Schneible	\$1,448,400	\$145,200
Machining Enterprises	\$3,602,700	\$278,200
B&W of Michigan	\$2,368,100	\$151,800

In addition, the county of Saginaw submitted payment of \$15,000 on behalf of the three companies seeking MEGA tax credits for the payment of the MEGA application fees.

RECOMMENDATION

The following four recommendations are made by the Michigan Economic Development Corporation:

1. MEGA Brownfield Redevelopment Credit of 10 percent of the eligible investment by Corvus Nodular Interests, LLC. and unknown lessees, for the General Motors Nodular Iron Redevelopment project, but no more than a \$6,000,000 credit;
2. 100 percent employment tax credit for ten years, for up to 25 net new employees for Michigan Production Machining, Inc.;
3. 100 percent employment tax credit for ten years, for up to 41 net new employees for CMI-Schneible, Company;
4. 100 percent employment tax credit for ten years, for up to 48 net new employees for Machining Enterprises, Inc.