

# MEMORANDUM

**Date:** September 14, 2010

**To:** Michigan Economic Growth Authority

**From:** Joshua Hundt, Senior Project Specialist  
Packaging Team

**Subject:** Briefing Memo – Navistar, Inc.  
High Technology MEGA Credit (Look-Back)

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## COMPANY NAME

Navistar, Inc.  
4201 Winfield Road  
Warrenville, Illinois 60555

## HISTORY OF COMPANY

Navistar, Inc. is a primary operating subsidiary of Navistar International Corp. Navistar, Inc. manufactures medium and heavy-duty trucks bearing the Navistar International brand name. The company also makes school busses, diesel engines, recreational vehicles, and chassis for motor homes and vans. The company was started in 1902 and sells products through a worldwide network of over 1,000 dealers.

In 2003, Navistar, Inc. started Navistar Defense, LLC to answer the U.S. government's request for armored and unarmored military vehicles. Since that time Navistar Defense, LLC has grown into a company with annual sales of over \$2 billion.

Navistar, Inc. and Navistar Defense, LLC currently have 123 employees in Michigan.

## PROJECT DESCRIPTION

Navistar, Inc. is planning a project in the City of Madison Heights, Oakland County that will be an engineering center targeted to provide product development and engineering support for defense and commercial truck products. Both Navistar, Inc. and Navistar Defense, LLC will create jobs at the new facility as a result of this project. The majority of the jobs for this project will be created through Professional Employer Organization (PEO) relationships.

The company plans to invest approximately \$4 million and create 87 jobs over the next five years, with 51 jobs projected in year 1, as a result of this project. The average weekly wage for the newly created jobs is anticipated to be \$1,416. 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 181 jobs in the state by the year 2016. Total state government revenues through the year 2016, net of MEGA costs, would be increased by \$3.4 million (current dollars) due to the presence of this facility.

### **BUSINESS CASE**

The company also considered locating this project in Indiana or Illinois. The majority of Navistar's engineering and defense business unit workers are located in these two states which would've offered significant economies of scale and reduced ramp-up costs for this project. Illinois and Indiana also both have lower labor costs and a more favorable corporate tax structure for Navistar, Inc.

### **OTHER STATE AND LOCAL ASSISTANCE**

The City of Madison Heights is supportive of this project and plans to approve a 10 year property tax abatement under PA 198 of 1974.

### **QUALIFYING HIGH-TECHNOLOGY ACTIVITY**

The company is a qualified high-technology business, whose primary business activity is homeland security and defense technology, as defined in the Act.

The company is not qualifying with the 10 percent research and development requirement.

### **RECOMMENDATION**

Based on the factors described above, the Michigan Economic Development Corporation recommends a 7 year high-technology employment tax credit for this project. The credit percentage will be 200% for years 1-3 and 100% for years 4-7 for up to 87 net new employees in excess of the company's established base of 109, including a look-back period of up to 90 days from the execution of the credit agreement.