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MEMORANDUM

DATE: January 25, 2000

TO: Michigan Economic Growth Authority

FROM: James Donaldson, Vice President
Michigan Business Development

SUBJECT: Briefing Memo – New Venture Gear, Inc.

COMPANY NAME AND ADDRESS:

New Venture Gear, Inc.
1650 Research Drive, Suite 300
Troy, Michigan 48083

HISTORY OF COMPANY:

New Venture Gear, Inc. was created on January 1, 1999. New Venture Gear, Inc., is a joint venture between DaimlerChrysler (64 percent interest) and General Motors (36 percent interest) and manufactures drive-line components, including manual transmissions, manual transaxles, transfer cases and other components for sale to DaimlerChrysler and General Motors as well as to their affiliates and to non-affiliated customers.

PROJECT DESCRIPTION:

New Venture Gear, Inc. proposes to construct a new facility in which to house its corporate offices and research and development functions in either Auburn Hills, Michigan or Syracuse, New York where it has extensive operations. Currently the company is leasing space in four buildings in Troy. The new facility will enable the company to enjoy more efficient operations, which will foster functional relationships and interaction of employees. The facility will also highlight the company's image as a world-class automotive supplier.

Capital investment for the project will include \$10 million for lease costs and \$7.1 million in new equipment. Construction will begin as early as March 2000, with anticipated completion in late February, 2001. The company will transfer 180 existing Michigan workers into this facility, as well as hire 92 new employees by 2003. These positions will pay an average weekly wage of \$1,503 and provide a benefit package equal to approximately 25 percent of wages.

Briefing Memo
New Venture Gear, Inc.
January 25, 2000
Page Two

BENEFIT TO THE STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 159 jobs in the state by the year 2010. Total state government revenues through the year 2010, net of MEGA costs and adjusted for inflation, would be increased by \$7,162,000(2000 dollars) due to the presence of the New Venture Gear, Inc. facility.

COST ANALYSIS:

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Michigan and New York. The company currently has all of its manufacturing operations in Syracuse. Based on figures obtained from the company, the cost disadvantage for New Venture Gear, Inc. to establish its new headquarters and research and development center in Auburn Hills, Michigan rather than Syracuse, New York ranges from \$1 million to \$1.3 million annually over the term of the incentive. The most significant factor in this differential is taxes. The state of New York will eliminate all the company's taxes, including corporate and property taxes, for 10 years; whereas in Michigan the company will pay additional taxes based on the project in addition to the taxes already being paid in Michigan. The taxes currently being paid to Michigan by the company would also be significantly reduced if the company moves its entire operation to New York. The company received an attractive incentive package to expand its Syracuse manufacturing and has received a similar offer to attract the research and development facility.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will provide New Venture Gear, Inc. with job training assistance of \$800 per job for up to 92 net new jobs, for a total of up to \$73,600. Because New Venture Gear, Inc. has no manufacturing operations in Michigan, the company is not eligible for property tax abatements. The city of Auburn Hills will provide the company with a water line extension to serve the company's proposed site at an estimated cost of \$100,000.

Briefing Memo
New Venture Gear, Inc.
January 25, 2000
Page Three

BUT FOR:

As reported earlier, this company already has significant operations in Syracuse, New York. Only 180 of the company's total 5,429 employees are currently housed in Michigan. In addition to the annual cost differential identified above, it would be reasonable for the company to move its operations, especially the research and development functions, closer to its manufacturing hub, perhaps keeping only a small sales office here to interact with local customers.

The company, however, has cited several intangible reasons why it would like to keep the headquarters and research and development operations in Michigan if part of this cost gap can be bridged. Some of these reasons are access to a larger pool of engineering talent, proximity to major customers, and availability of superior automotive-related technical training.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 92 net new jobs for a period of 10 years.