



MEMORANDUM

DATE: December 21, 1999

TO: Michigan Economic Growth Authority

FROM: James Donaldson, Vice President
Michigan Business Development *James Donaldson*

SUBJECT: Briefing Memo - Northern Michigan Casting Corp.

COMPANY NAME:

Northern Michigan Casting Corp.
c/o Northern Diecast
8582 Moeller Drive
Harbor Springs, Michigan 49740

HISTORY OF COMPANY:

Northern Michigan Casting Corp. will be established as a subsidiary of Northern Diecast Corp. Northern Diecast is a magnesium diecaster that has been in business since 1981 in Harbor Springs, Michigan.

PROJECT DESCRIPTION:

In order to accommodate a growth in sales, the company needs to add a new facility for the refining of magnesium ingot and to manufacture automotive and non-automotive diecasting components. The proposed new facility will create 95 new, full-time jobs within three years. The jobs will pay an average weekly wage of \$359 and will provide a benefit package to employees averaging 35 percent of wages.

The company has looked at various options for the siting of this facility and has settled on two alternatives. The first alternative is for the company to renovate and lease an existing vacant manufacturing facility in Newberry, Michigan. The second alternative is to purchase an existing diecast operation in Ripley, Tennessee.

If the Michigan site is chosen, the company would need to invest \$2.1 million in land and building as well as \$4.25 million in machinery and equipment. Renovations would begin in March of 2000 and operations would begin in late July of the same year and would be fully operational by January 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 157 jobs in the state by the year 2020. Total state government revenues through the year 2020, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$6,381,000 (1999 dollars) due to the presence of the Northern Michigan Casting facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Ripley, Tennessee and Newberry, Michigan. Based on figures obtained from the company, the cost disadvantage for Northern Michigan Casting to establish its manufacturing facility in Michigan rather than Tennessee ranges from approximately \$375,000 to \$450,000 annually over the term of the incentive. This cost differential is over and above the additional occupancy costs that will be incurred by the company in Michigan due to the need to renovate the facility, as well as additional equipment costs necessary. The Tennessee plant is an operating diecast facility and therefore has been designed for this type of operation and has much of the necessary equipment in place. The cost differential range stated above is primarily attributable to the company being able to enjoy lower wage rates and lower energy rates in Tennessee. Michigan Economic Development Corporation staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Tennessee.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will provide Northern Michigan Casting with a 100 percent abatement of the six-mill State Education Tax for a period of time to match the local property tax abatement. This tax abatement is estimated to be worth \$148,284 over the term of the incentive. Economic Development Job Training funds will also be offered to the company at \$500 per job for up to 95 net new employees for a total of \$47,500. In addition, the state of Michigan will be providing the local

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community a Community Development Block Grant worth up to \$615,000 to provide infrastructure improvements to the company.

Pentland Township (Newberry) will provide a 50 percent property tax abatement for a period of 12 years worth approximately \$384,921.

BUT FOR:

Without the assistance offered by the MEGA program, Northern Michigan Casting would not locate a new facility in Michigan for the following reasons:

1. The cost differential is a large one for a company of this size to absorb. The main benefit of the Tennessee facility is that it is a turnkey operation, with a suitable building, equipment and even staff already in place. The company could just take ownership of the operation.
2. In addition to the cost differential, there would be a significant start-up time disadvantage to the company due to the renovations that are required on the Michigan facility.

The company feels, however, that if Michigan can help the company to alleviate these cost differentials, it would prefer the Michigan site over the one in Tennessee. The owners of the company are from Michigan and would find it much easier to oversee the operation if it was in Michigan rather than Tennessee, as well as saving the owners travel time and costs.

RECOMMENDATION:

The MEDC recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 95 net new jobs, and a business activity credit of 100 percent for a period of five years.