

MEMORANDUM

Date: April 20, 2010

To: Michigan Economic Growth Authority

From: Amy Deprez, Manager
Packaging Team

Kenneth Murdoch, Project Specialist
Packaging Team

Subject: Briefing Memo –Parker Hannifin Corporation
Retention MEGA Credit

COMPANY NAME

Parker Hannifin Corporation
2220 Palmer Avenue
Kalamazoo, Michigan 49001

HISTORY OF COMPANY

Parker Hannifin Corporation is a global corporation that engineers and produces products and technology in numerous industries including aerospace, climate control, electromechanicals, filtration, fluids and gas handling, hydraulics, pneumatics, process control and sealing and shielding. In 1966 Parker Hannifin Corporation purchased the hydraulic components business from Power Control Technologies, Inc. These operations were added to Parker's Aerospace Group and are currently located in Kalamazoo Michigan.

Parker Hannifin Corporation currently has 1636 employees in Michigan.

PROJECT DESCRIPTION

Parker Hannifin Corporation has been awarded new contracts for hydraulics systems in many new air craft models including the Boeing 787, Dreamliner, Airbus350, Canadian Regional Jet and Bombardier C-Series. For Parker Hannifin Corporation to service these new contracts, investment must be made to the Kalamazoo facility including renovations, new machinery and equipment. Parker Hannifin has also indicated that the existing Kalamazoo facility has electrical power issues.

Parker Hannifin will invest approximately \$15.5 million and retain 608 jobs over the next five years as a result of this project. The average weekly wage for the retained jobs will be \$1,114. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost.

There are not any other Michigan businesses known in the same industry.

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 retain a total of 1,493 jobs in the state by the year 2016. It is also estimated that the project would maintain total state government revenues through the year 2016, net of MEGA costs, of \$46.8 million (current dollars) due to the retention of this facility.

BUSINESS CASE

Parker Hannifin has indicated that the Kalamazoo facility has disadvantages in the areas of labor and energy costs as compared to South Carolina. Compensation for skilled labor in South Carolina is estimated to be \$225 less per week and engineers \$100 less per week than Parker Hannifin existing Kalamazoo labor costs. Parker Hannifin (which consumes large amounts of electrical power) has indicated that they could save over \$200,000 per year on electrical costs by relocating in South Carolina. Relocating to South Carolina would allow Parker Hannifin to be in a location closer it's other aerospace operation.

OTHER STATE AND LOCAL ASSISTANCE

The City of Kalamazoo has indicated that they are supportive of a P.A. 198 tax abatement for 12 years on real property and 6 years on personal property. The estimated value of these abatements is \$305,868. The community anticipates approval of the abatements about 60 days following the approval of the MEGA tax credit.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 50 percent retention employment tax credit for 5 years for the 608 retained employees at the Parker Hannifin Kalamazoo facility, provided that the following two contingencies are met:

- To activate the credit the company will be required to make an initial capital investment of \$5 million; and
- Provided that the company and associated companies maintain a total statewide employment threshold of 1,227 full-time employees, including the 608 qualified retained employees for this project, for the term of the credit. Failure to do so will result in the remaining years of the credit being forfeited.