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MEMORANDUM

DATE: May 28, 1998
TO: Michigan Economic Growth Authority
FROM: James Donaldson, Director, Michigan Business Development
SUBJECT: Briefing Memo - Pollard (U.S.) Ltd.

COMPANY NAME AND ADDRESS:

Pollard (U. S.) Ltd.
1499 Buffalo Place
Winnipeg, Manitoba Canada R3T 1L7

HISTORY OF COMPANY:

Pollard Banknote Limited purchased Webcraft Technologies, Inc. in 1996. Webcraft has an instant lottery ticket printing facility in Ypsilanti Township, Michigan which currently employs 112 people. Due to increased sales projections in both U.S. and international lottery markets, Pollard Banknote finds it necessary to increase capacity and improve and update existing technology. Pollard's current customers served by its Ypsilanti facility include the states of Michigan, Ohio, and Iowa, as well as Israel, Romania, United Kingdom, Ireland and South Africa. Pollard is the third largest printer of instant lottery tickets in the world.

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PROJECT DESCRIPTION:

This project would involve building a new 50,000 square foot manufacturing facility in either Ypsilanti Township, Michigan or Cedar Rapids, Iowa. Total investment is anticipated at \$8 million. The project would create 124 new jobs within three years, as well as retain the 112 workers now employed in Ypsilanti. The average weekly wage of existing workers is \$489 per week; new workers would be paid an average of \$461 per week. In addition, the company provides employees with a benefit package equal to 30 percent of wages.

Construction is anticipated to begin July 1, 1998 with completion in December, 1998. There would be a ramp-up period for gradual installation of new equipment from January 2, 1999 through June 1, 1999, when the facility is expected to be fully operational.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 204 jobs in the state by the year 2010. Total state government revenues through the year 2010, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$4,639,000 (1998 dollars) due to the presence of the Pollard (U.S.) Ltd. facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Cedar Rapids, Iowa, and Ypsilanti, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Pollard (U.S.) Ltd., to establish its manufacturing facility in Ypsilanti, Michigan, rather than Cedar Rapids, Iowa, ranges from approximately \$1,327,000 to \$1,653,000 over the term of the incentive. The cost differential is primarily attributable to a labor cost differential of 15-20 percent in employment categories required by the company, as well as property tax costs in Iowa averaging 28 percent of those in Michigan. Michigan Jobs Commission staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Iowa.

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OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide 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 \$193,462 over the term of the incentive.

Ypsilanti Township will provide a 50 percent property tax abatement for a period of 12 years worth approximately \$1,213,458. Both sites under consideration in Ypsilanti Township for this facility are located in pre-established Industrial Development Districts and it is normal policy for the township to grant tax abatements to firms locating in these districts. We have a letter in our file from Ypsilanti Township showing intent to grant Pollard (U.S.) Ltd., the maximum abatement available.

In addition, the Michigan Jobs Commission will provide Economic Development Job Training Grant funds in the amount of \$62,000 (\$500 for each of 124 new employees).

BUT FOR:

Without the assistance offered by the MEGA program, Pollard (U.S.) Ltd. would not expand in Michigan for the following reasons:

Since the passage of P. A. 153 in Michigan in 1995, Pollard (U.S.) Ltd., is not required to have a lottery ticket printing facility located in Michigan in order to compete successfully for a contract. This has opened the door for Pollard to look at alternative locations, including Iowa, where they would like to capture more lottery printing business. Michigan's lottery business with Pollard represents only 20 percent of Pollard's sales from its Michigan facilities.

The lottery ticket printing business has grown more sophisticated and competitive over the last ten years, thereby making bottom-line costs more important due to the rather low average profit margin for the industry. Cedar Rapids, Iowa had lower overall costs than Ypsilanti, Michigan.

Even given the extreme cost differentials between Michigan and Iowa, the company cited many reasons for wanting to keep the facility in Michigan if we could make it more economically feasible for them to do so. These included avoiding the disruption that moving across country would obviously have in terms of productivity with the loss of its

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current well-trained and productive workforce. Also there are a lot of hidden costs associated with moving the facility which were not reflected in our analysis, including paying relocation expenses of workers moving with facility and severance pay for workers in Ypsilanti being laid-off. An incentive package would probably need to be offered to keep employees working at the Ypsilanti facility until it was time to close it. Also, the company does more business with the State of Michigan than with the State of Iowa and the company feels that staying in Michigan would more likely mean keeping its Michigan contract. Finally, some of the larger instant lottery ticket markets are on the East Coast and Michigan is closer to these markets.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 75 percent for a period of 12 years for up to 124 net new jobs, and a business activity credit of 50 percent for a period of 10 years.