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MEMORANDUM

DATE: October 10, 2000
TO: Michigan Economic Growth Authority
FROM: James Donaldson, Vice President
Michigan Business Development
SUBJECT: Briefing Memo – R. J. Tower Corporation

COMPANY NAME AND ADDRESS:

R. J. Tower Corporation
27175 Haggerty Road
Novi, Michigan 48377

HISTORY OF COMPANY:

R. J. Tower is a subsidiary of Tower Automotive, Inc., a publicly held company incorporated in 1993 to design and manufacture structural components and assemblies used by major automotive equipment manufacturers. Since its incorporation, the company has experienced exponential growth as a result of an aggressive and strategic acquisition program. Tower Automotive maintains 25 manufacturing facilities in North America, as well as other facilities in Europe, South America and the Pacific Rim. Tower Automotive currently has over 4,100 employees in Michigan.

PROJECT DESCRIPTION:

As part of its expansion initiative, Tower Automotive is planning the construction of a new, state-of-the-art manufacturing facility in either Delta Township, Michigan or Bellevue, Ohio. Tower currently operates a manufacturing facility in Bellevue that produces parts for a Ford Motor Company facility in Southeast Michigan. An investment of \$10 million for the building (includes capitalized lease and leasehold improvements) and \$19.4 million in machinery and equipment would be required for the project, for a total investment of \$29.4 million. Up to 404 new jobs would be created at an average weekly wage of \$690 and offering a benefit package of up to 32 percent of weekly wages.

Construction of the new facility could begin as early as late October 2000. New machinery and equipment would be installed during the first six months of 2001 and production would begin in January 2002. Tower would hire 120 new full-time employees within the first year of production and will ramp up employment over the next two years with 115 and 169 additional employees respectively.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 929 jobs in the state by the year 2009. Total state government revenues through the year 2009, net of MEGA costs and adjusted for inflation, would be increased by \$24,372,000 (2000 dollars) due to the presence of this facility.

COST ANALYSIS:

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Delta Township, Michigan and Bellevue, Ohio. Based on figures obtained from the company, the cost disadvantage for R. J. Tower to locate this expansion in Michigan rather than Ohio totals \$11.8 million over the nine-year period of the incentive. This cost differential is primarily attributable to lower wages in this rural area of Ohio and tax incentive programs offered by the State of Ohio.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide R. J. Tower an Economic Development Job Training grant of \$750 for each of the 404 new workers, or a total of \$303,000. In addition, 100 percent of the 6-mill State Education Tax will be abated for an amount of time to match the local property tax abatement. The estimated value of this abatement is \$728,769.

Delta Township will provide the company with an abatement of 50 percent of the real and personal property taxes related to the project for a twelve-year period. The estimated value of this local abatement is \$2,701,117.

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BUT FOR:

R. J. Tower has indicated that it must determine the most cost-effective location for this facility in order to remain competitive. Other factors influencing the location include availability of skilled labor and proximity to its customers. The state of Ohio, in addition to being a lower cost alternative, has offered the company substantial tax incentives to expand its current operation in Bellevue. In order to win this project, Michigan must compete with these incentives.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends an employment credit of 100 percent for up to 404 net new jobs for 9 years and a business activity credit of 100 percent for 8 years.