



John Engler, Governor

Doug Rothwell, Chief Executive Officer
and Department Director

MEMORANDUM

DATE: March 19, 1997

TO: Michigan Economic Growth Authority

FROM: Steve Arwood

SUBJECT: Briefing Memo - RSDC of Michigan, L.L.C.

COMPANY NAME:

RSDC of Michigan, L.L.C.
4343 Wyoming
Dearborn, Michigan 48126-3793

HISTORY OF COMPANY:

RSDC of Michigan, L.L.C. (RSDC) is a joint venture between Kasle Steel Corporation (Kasle), Itochu International Trading, Inc. (Itochu), and Alternative Distribution Systems, Inc. (ADS). Both Kasle and Itochu each own 40 percent of the joint venture arrangement. The balance of the joint venture agreement is owned by ADS. Each partner is considered a Tier 1 supplier to the automotive industry. Kasle is a 60-year-old, family-owned Michigan business (three facilities in Michigan and one in Windsor) with annual revenues of \$145 million. Itochu is a Japanese trading company with a worldwide manufacturing presence (including one facility in Indiana and two in Ohio) and annual revenues of \$165 billion. ADS is an Indiana-based, multiple state warehousing and distribution firm (seven facilities in Indiana and three facilities in Ohio) with annual sales of more than \$70 million.

PROJECT DESCRIPTION:

RSDC is considering Delhi Township, Michigan, or Butler, Indiana, for one of the largest steel distribution facilities in North America. This joint venture has been formulated at the request of General Motors. The company will provide state-of-the-art processing equipment, modern steel transportation services, and Electronic Data Interchange technology in the slitting and blanking of coiled steel. Products include all steel components for General Motor vehicles and trucks.

This venture will allow RSDC to become a partner with General Motors in making the automaker's Michigan stamping operations as efficient and cost competitive as possible. The company will supply GM facilities located in Flint, Pontiac, Lansing, Grand Rapids, and Kalamazoo, Michigan. The joint venture will invest approximately \$80 million, in addition to creating 222 new jobs. The average weekly wage is approximately \$534. Annual payroll will be approximately \$6.6 million at full production. The company has an employee benefit package that averages 27 percent of payroll.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 720 new jobs in the state by the year 2013. Total state government revenues through the year 2013, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$26,752,000 (1997 dollars) due to the presence of the RSDC facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Butler, Indiana, and Delhi Township, Michigan. Based on figures obtained from the company, the annual cost disadvantage for RSDC to establish their manufacturing facility in Delhi Township, Michigan, rather than Butler, Indiana, ranges from approximately \$850,000 to \$1.3 million annually over the term of the incentive. The cost differential is primarily attributable to transportation costs and taxes. Michigan Jobs Commission staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Indiana.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will be providing a 100 percent abatement of the 6-mill school property tax for a period of 12 years, worth up to \$1,973,340. Also, the Michigan Jobs Commission will provide a public infrastructure grant in the amount of \$1,995,000, in addition to supporting a road grant in the amount of \$1.2 million through the Michigan Department of Transportation's Economic Development Fund.

Local assistance will be in the form of a 12 year, 50 percent tax abatement valued at \$8,043,860. Furthermore, Delhi Township will bond for an additional \$2.5 million which will be applied to additional site improvements.

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BUT FOR:

The company has examined the cost differential between locating in Butler, Indiana, and Delhi Township, Michigan, and also the factors that could influence the company to locate in Michigan despite a cost disadvantage. The company would not consider locating in Michigan without the MEGA tax credit to offset the tax and transportation differentials. The ability to offer MEGA to the company will allow it to locate in Michigan and help offset the inherent advantages of proximity to its supplier base.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 15 years for up to 222 net new jobs.