



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: June 21, 2005
TO: Michigan Economic Growth Authority
FROM: James Donaldson, Vice President
Michigan Business Development
SUBJECT: Briefing Memo – Severstal North America, Inc.
Retention Credit

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COMPANY NAME AND ADDRESS:

Severstal North America, Inc.
3001 Miller Road
Dearborn, Michigan 48121

HISTORY OF COMPANY:

OAO Severstal is Russia's second largest steel producer and the eighteenth largest in the world. OAO also operates a mining division, an automotive division, and several other business interests around the world.

Severstal North America, Inc. (SNA) acquired the assets of Rouge Industries in January 2004. Rouge Industries was founded 80 years ago by Henry Ford. In 1989, Ford spun the unit off to focus on its car and truck assembly business. The company manufactures flat-rolled steel products using an integrated steel production process, and currently employs 2,041 at its Dearborn facility.

PROJECT DESCRIPTION:

SNA is considering major investments in its operations in Dearborn. The project would begin with the rehabilitation of a steel blast furnace, which will require an investment of at least \$162 million. Subsequent improvements to other processes are anticipated to bring the total of new investment in the complex to more than \$250 million. Capital expenditures for these renovations could begin this year with production from the rehabilitated blast furnace targeted for early 2008.

These improvements will result in the retention of up to 2,041 jobs at the site. These positions pay an average of \$820 per week.



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BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan utilizing Regional Economic Models, Inc. software, we estimate that this facility will retain a total of 11,300 jobs in the state by the year 2027. We also estimate that the project would maintain total state government revenues through the year 2027, net of MEGA cost and adjusted for inflation, of \$890 million (2005 dollars) due to the retention of this facility.

BUSINESS CASE:

SNA performed a comprehensive analysis of potential facilities where this production could be performed. Lower utility costs and property taxes in Ohio or Indiana could save the company up to \$20 million annually.

OTHER STATE AND LOCAL ASSISTANCE:

The City of Dearborn has approved 50 percent abatement of the company's new real and personal property taxes for 12 years. This abatement has an estimated value of \$19 million. The State of Michigan will also offer 100 percent abatement of the six-mill State Education Tax for a length of time to match the local property tax abatement. This abatement has an estimated value of \$4.8 million.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends an employment credit of 50 percent for twenty years for the retention of up to 2,041 jobs at the facility.