



MEMORANDUM

Date: March 15, 2011

To: Michigan Economic Growth Authority

From: Marcia Gebarowski, Project Specialist
Packaging Team

Subject: Briefing Memo – Spartan Motors Chassis, Inc.
Standard MEGA Credit

COMPANY NAME

Spartan Motors Chassis, Inc.
1000 Reynolds Road
Charlotte, Michigan 48813

HISTORY OF COMPANY

Spartan Motors Chassis (Spartan Chassis), located in Charlotte, Michigan, is a wholly owned subsidiary of Spartan Motors, Inc. Spartan Motors Inc. was incorporated in Michigan in 1975, the same year it developed and shipped its first fire truck chassis. Spartan Chassis is a world-class leader in the design, engineering and flexible production of chassis, specialty vehicles and aftermarket parts for the defense, emergency response and outdoor recreation/RV markets. Spartan Chassis customers are OEM's who complete their heavy-duty product by either mounting the body or apparatus on the Company's chassis or integrating the drive train with the armored body.

The company currently has 673 employees in Michigan.

PROJECT DESCRIPTION

Spartan Motors, recently acquired Utilimaster, a leading manufacturer of walk-in vans and commercial truck bodies for the delivery and service market place. Utilimaster's current manufacturing facility is located in Wakarusa, Indiana. Spartan Motors has won a contract to assemble Isuzu chassis and a new commercial delivery van body. Some of this work is currently being done at the Utilimaster facility and Spartan plans to move all final assembly work to their current campus in Charlotte, Michigan. This will require the company to purchase and demolish an existing Brownfield facility to expand the footprint of their campus as well as re-arrange divisions into different buildings to place the new work on their campus.

In total for the project, the company plans to invest approximately \$5.14 million and create 450 jobs over the next five years, all of which are projected for the first year of the project. The average weekly wage

for the newly created jobs is anticipated to be \$648. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost.

The effect on other Michigan businesses in the same industry was taken into consideration when recommending the amount and length of this tax credit.

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 generate a total of 1,725 jobs in the state by the year 2022. Total state government revenues through the year 2022, net of MEGA costs, would be increased by \$69,086,854 (current dollars) due to the presence of this facility.

BUSINESS CASE

Spartan has identified a wage cost gap of approximately \$1.45 per hour in favor of the Wakarusa facility over the Charlotte campus. The company estimates that because much of their supply base is in Indiana, they anticipate an inbound freight penalty of about \$50 per unit if the final assembly of this product is brought to Michigan. Lastly, the Wakarusa facility would allow the company to expand their as a Greenfield development, which is less costly than the planned redevelopment of a brownfield property at the Charlotte campus.

OTHER STATE AND LOCAL ASSISTANCE

The City of Charlotte will support this project with a PA 198 on new real and personal property for up to 12 years. This has an estimated value of \$841,000.

In addition, the MEDC plans to recommend support for a small Brownfield MBT credit, with a credit value not to exceed \$1.25 million, and a direct Community Development Block Grant (CDBG) of \$1.12 million for the purchase of machinery and equipment. Both of these incentives are anticipated to be presented for approval in the near term.

DUE DILIGENCE FINDINGS

Spartan Motors Chassis, Inc. was charged by the U.S. Attorney's office for intentionally falsifying an agreement in 2005 with Force Protection, a prime contractor of war vehicles for the Department of Defense (DoD). This agreement stated, among other conditions, that it "had not paid and will not pay consideration of any kind to any employee in connection with the purchase order." Spartan Motors Chassis was hired as a subcontractor by Force Protection to provide 136 chassis units.

When this agreement was signed, at least one Spartan Motors Chassis company executive was aware that a Force Protection employee was receiving compensation to the tune of \$1,500 per chassis ordered. On December 22, 2008, the company pled guilty to one charge of making a false statement related to the terms and conditions in a military contract and will pay a total of \$6 million in related fines and penalties.

As part of its response to the investigation, Spartan Motors Chassis revised their Company's Business Code of Conduct and Compliance and named their CFO James Knapp as Spartan's Chief Compliance Officer. Further, Spartan implemented an extensive compliance training program for all associates and

instituted new internal procedures to ensure adherence to the unique and complex rules of government contracting. Spartan Motors continues to do business with the Federal Government and DoD.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent standard employment tax credit for 10 years for up to 450 net new employees in excess of the company's established base of 673. This offer is contingent upon the following:

- The company agrees to set aside its existing MEGA credit upon activation of the MEGA credit for the described project. Activation of this tax credit is expected to take place around December 31, 2013.
- The company must create and maintain 400 qualified new jobs by the end of the fifth year. Failure to do so will result in the forfeiture of the all remaining credit years.