



John Engler, Governor

Doug Rothwell, Chief Executive Officer

MEMORANDUM

DATE: March 4, 1998
TO: Michigan Economic Growth Authority
FROM: Jim Donaldson, Director, Michigan Business Development
SUBJECT: Briefing Memo - Spicer Heavy Axle and Brake Division

COMPANY NAME AND ADDRESS:

Spicer Heavy Axle and Brake Division
(Dana Corporation - Heavy Truck Components Group)
8000 Yankee Road
Ottawa Lake, Michigan

HISTORY OF COMPANY:

Dana Corporation is a publicly traded company. Its predecessor, Spicer Manufacturing Corporation was founded in 1904. The company manufactures and markets vehicular components and industrial components. Eighty percent of sales are in the vehicular market for trucks, SUVs, trailers, vans and automobiles. Twenty percent of its market is in industrial components such as off-road vehicles and stationary industrial equipment. Dana has facilities in several European countries and employs more than 46,000 worldwide. The company has grown steadily through acquisition and increased sales. Dana has traditionally enjoyed excellent cash flow and is well positioned for future growth. Recently, the company acquired portions of Eaton Corporation and is considering consolidation of some research and development operations. Spicer Heavy Axle and Brake is a division of Dana Corporation engaged in research and development and manufacture of components for trucks and other heavy equipment.

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PROJECT DESCRIPTION:

This project would involve moving research and development activities from Fort Wayne, Indiana to Texas Township near Kalamazoo. Alternately, the company would move both the Michigan and Indiana operations to the Lexington, Kentucky area to be closer to the manufacturing segments of this division. Either alternative would consolidate these activities at a single location and provide the company with greater synergy and cost savings. The project would invest approximately \$15 million in new building and equipment and would result in the addition of 203 new jobs to Michigan operations. The average wage for these jobs would be \$1,000 per week with a full benefit package.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 340 jobs in the state by the year 2017. Total state government revenues through the year 2017, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$26,386,000 (1998 dollars) due to the presence of the Spicer facility. The project would also retain 97 existing employees in the Kalamazoo area who would otherwise be moved to Kentucky.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Lexington, Kentucky and Texas Township, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Spicer to expand its research and development operations in Texas Township, rather than Lexington, ranges from \$366,000 to more than \$1.4 million over the term of the incentive. The cost differential is primarily attributable to taxes, incentives, and unemployment compensation insurance costs. Wages are equivalent in Kentucky and Michigan. Michigan Jobs Commission staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Kentucky.

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OTHER STATE AND LOCAL ASSISTANCE:

The Michigan Jobs Commission will provide Spicer with 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 \$632,000 over the term of the incentive. Economic Development Job Training funds will also be offered to the company at \$1231 per job for up to 203 net new employees for a total of up to \$250,000. In addition, Texas Township will be applying for an infrastructure grant from the Michigan Renaissance Fund worth up to \$857,000 to provide needed utilities and roads to the site. Local assistance will be in the form of a 50 percent property tax abatement which is worth up to \$1,900,000 over the term of the incentive.

BUT FOR:

Spicer has no particular interest in locating this project in either Indiana or Michigan. The indirect benefit for the company is proximity of related Spicer Heavy Axle and Brake Division facilities in the southeast quadrant of the country and the resulting increase in productivity expected from locating research and development closer to manufacturing. As a part of the decision-making process, the company had to consider overall costs. Higher Michigan tax costs and Kentucky incentive programs would provide a lower cost alternative in Lexington.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of twenty years for up to 203 net new jobs and a 100 percent business activity credit for a period of five years.