

MEMORANDUM

Date: December 15, 2009

To: Michigan Economic Growth Authority

From: Amy Deprez, Manager
Packaging Team

Subject: Briefing Memo – US Farathane Corporation
Retention & Standard MEGA Credits

COMPANY NAME

US Farathane Corporation
38000 Mound Road
Sterling Heights, Michigan 48310

HISTORY OF COMPANY

US Farathane Corporation ("USF") is a privately-held corporation founded in 1971 that designs and manufactures highly engineered plastic fabricated components. USF provides its customers with a wide range of full service support in product design, material selection and manufacturing capabilities primarily serving the automotive, consumer goods, electronics and heavy truck industries. The company continues to diversify itself into new markets and products through utilizing its existing capabilities and taking them to other industries.

USF was formed through the merger of US Plastics and Farathane Corporation. Since then, ChemCast Corporation and Ohio Rubber - Orthane Division were acquired, along with Hahn Elastomer and the Extrusion Division of Ligon Brothers. USF currently has 540 employees in Michigan.

PROJECT DESCRIPTION

USF has its corporate headquarters and six manufacturing sites in Michigan. The lease for the corporate headquarters, which includes one of the six manufacturing facilities, is expiring and the company is considering where to locate its world headquarters and its needed manufacturing capacity. The company is analyzing its long term competitive position and where that growth should take place. All of the facilities are at risk of closure if the headquarters is not sited in Michigan. The location of the USF's headquarters and the additional manufacturing space in Michigan would provide synergies within the company and a local presence with its key customers such that USF would keep its Michigan presence and continue to grow in Michigan. Alternatively, if USF sites its headquarters in another state there would be no compelling reason to continue manufacturing in Michigan and USF would begin to relocate the facilities and all future expansion would not occur in Michigan.

The company has identified a site in Auburn Hills and plans to construct a 240,000 square foot facility to serve as their worldwide headquarters and premier manufacturing location. Construction of the facility is planned for early 2010 with the site operational by 4th quarter 2010. The company will invest through lease costs and machinery and equipment approximately \$51.7 million. The project will retain all of the 540 current employees and will create an additional 398 jobs to be located at any of the company's facilities. The average weekly wages of the retained employees will be \$711 and the new jobs will pay an average weekly wage of \$623. 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 retain a total of 1,249 jobs and create a total of 909 jobs in the state by the year 2016. It is also estimated that the project would maintain total state government revenues through the year 2016, net of MEGA costs, of \$43.8 million (current dollars) due to the retention of this facility.

BUSINESS CASE

Alternatively, the company has considered several other states for this expansion and relocation including: Tennessee, Indiana, and Ohio. The company has available land in Tennessee and has received incentive offers from that State to attract the project there. Primarily the company has identified lease costs and utilities as the major cost disadvantages of Michigan. They have identified existing incentives that would be available, including land for \$1.

This project is to secure a strong USF presence in Michigan and secure the future growth.

OTHER STATE AND LOCAL ASSISTANCE

The City of Auburn Hills is supportive of this project and has indicated that they will review the project for approval of tax abatements and/or Brownfield Redevelopment. The City has also offered to expedite permit review services to keep the company on schedule for being operational in 2010.

The MEDC is supportive of offering a 6 mill State Education Tax (SET) abatement on the real property. In addition, the MEDC will recommend support for a Small Brownfield Redevelopment MBT credit valued at up \$1.25 million. We also anticipate a Brownfield Tax Increment Financing (TIF) request for state capture and will consider this at a later time.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends up to 100 percent retention employment tax credit for 7 years for the 540 retained employees and a 100 percent standard employment tax credit for 7 years for up to 398 net new employees in excess of the company's established statewide base of 540, provided that:

- USF maintains a minimum of 400 jobs in the state for the duration of the credit. Failure to meet the 400 job threshold will disqualify the company from the credit for that year. The company may request the credit for any of the remaining years provided that they meet the 400 job threshold; and
- Retained and New Jobs can be located at any USF facility in Michigan.