



John Engler, Governor

Doug Rothwell, Chief Executive Officer

MEMORANDUM

DATE: July 21, 1995

TO: Michigan Economic Growth Authority

FROM: Doug Rothwell *D.R. 7/21*

SUBJECT: Briefing Memo - A.O. Smith Corporation

COMPANY NAME:

A.O. Smith Corporation
Automotive Products Division
38900 Hills Tech Drive
Farmington Hills, Michigan 48331-3436

HISTORY OF COMPANY:

A.O. Smith began business in 1874, and A.O. Smith Corporation was organized in 1916. The company is headquartered in Milwaukee, Wisconsin. Operations are divided into the Automotive Products Division, Electrical Products Division, and Water Products Division. Major product lines include: automotive structural components, electric motors, residential and commercial water heaters, fiberglass piping system, protective coatings, and agricultural storage products and services.

The Automotive Products Division of A.O. Smith Corporation is considering the expansion of its manufacturing operations to Plymouth Township, Michigan. This project will mark the first manufacturing facility for A.O. Smith in the State of Michigan. They currently have an administrative and sales office in Farmington Hills, Michigan, which employs 60 full time individuals.

PROJECT DESCRIPTION:

The Automotive Products Division of A.O. Smith Corporation is considering Plymouth Township, Michigan and Milwaukee, Wisconsin for a manufacturing operation. The facility would manufacture structural products primarily for the automotive industry. This operation will require the company to invest approximately \$65 million, which will create 247 new jobs over three years. The average weekly wage at this facility is approximately \$713. Total payroll at full production is estimated to be \$9.2 million annually.

BENEFIT TO STATE:

According to the economic analysis done at the University of Michigan, we estimate this facility will generate a total of 870 jobs in the state by the year 2006. Total state government revenues through the year 2006, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$25,678,000 due to the presence of the A.O. Smith Corporation facility.

This project would create a total of \$371 million (1995 dollars) in personal income by the year 2006 for Michigan residents. It would also contribute more than \$6 million to local governments and schools through property tax payments over 12 years.

COST ANALYSIS:

As part of the company's site decision process, they have undertaken a comprehensive cost analysis between Milwaukee, Wisconsin and Plymouth Township, Michigan. Based on figures obtained from the company, the annual cost disadvantage for A.O. Smith Corporation to establish their manufacturing facility in Plymouth Township rather than Milwaukee ranges from \$500,000 to \$950,000 over the term of the incentive. The cost differential is primarily attributable to lease payments on the facility and one time infrastructure costs for the property in Plymouth Township. The company has capacity at its Milwaukee plant to absorb this project without the additional occupancy costs projected at Plymouth Township.

Based on data the Michigan Jobs Commission has obtained and analyzed, we feel that the cost differential between states is a reasonable approximation. Therefore, MEGA has been offered to off-set the variance in cost and to provide an incentive to facilitate this investment.

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LOCAL FINANCIAL ASSISTANCE:

Local assistance includes a 50 percent property tax abatement valued at nearly \$6 million over twelve years.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 10 years for up to 247 new employees.