

MEMORANDUM

Date: January 19, 2010

To: Michigan Economic Growth Authority

From: Amy Deprez, Manager
Packaging Team

Greg West, Project Specialist
Packaging Team

Subject: Briefing Memo – AxleTech, LLC
Retention MEGA Credit

COMPANY NAME

AxleTech, LLC
3001 West Big Beaver Road, Suite 400
Troy, Michigan 48084

HISTORY OF COMPANY

AxleTech, formed in 2002, is a leading global supplier of planetary axles, brakes, drive train assemblies and transfer cases for specialty vehicles (both on and off highway). AxleTech grew to almost \$600 million in revenue in 2008, by servicing the military, construction, material handling, agriculture, forestry and heavy truck sectors worldwide. In December 2008, AxleTech was acquired by the Armament and Technical Products Group of General Dynamics, which currently has 3,005 employees in Michigan. This acquisition has given AxleTech significant financial and other resources to continue its growth.

AxleTech LLC currently has 107 employees in Michigan.

PROJECT DESCRIPTION

To support its continued growth, AxleTech plans to consolidate four facilities into a new leased facility in Troy, Michigan. The consolidation will include four existing Axle Tech operations: corporate offices (currently located in Troy), a warehousing/manufacturing facility (currently located in Detroit), one aftermarket warehouse and distribution facility (currently located in Belvidere, Illinois) and another smaller aftermarket warehouse and distribution facility (currently located in Chicago, Illinois).

AxleTech LLC will invest approximately \$5.4 million and retain 107 jobs over the next five years as a result of this project. The average weekly wage for the qualified retained jobs will be \$1,608. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost. In addition to the 107 qualified retained employees, this consolidation will also create approximately 50 new Michigan jobs.

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 415 jobs in the state by the year 2015. It is also estimated that the project would maintain total state government revenues through the year 2015, net of MEGA costs, of \$8.7 million (current dollars) due to the retention of this facility.

BUSINESS CASE

Alternatively, AxleTech is considering locating this project at its manufacturing facility in Oshkosh, Wisconsin. The company owns the Oshkosh facility, which currently has enough capacity to absorb the work and jobs associated with this project. While there would be some costs associated with facility modifications and employee relocation, moving to the Oshkosh facility would be the lower cost alternative due to lack of lease costs. Facility maintenance, utility, travel and shipping costs would also be lower if this consolidation were to take place in Wisconsin.

AxleTech does realize that some key employees could potentially be lost if the consolidation was to take place in Wisconsin. This Retention MEGA credit, along with the company's desire to retain its current employees, will help to offset the greater cost associated with locating the project in Troy and allow this project to move forward in Michigan.

OTHER STATE AND LOCAL ASSISTANCE

The City of Troy is supportive of this project and has approved a six year personal property tax abatement under PA 198 of 1974. The estimated value of this abatement is \$35,404.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a retention employment tax credit for 50 percent for five years for up to 107 qualified retained employees, subject to the following:

- Provided that the company and associated companies maintain a total statewide employment threshold of 2,334 full-time employees, including the 107 qualified retained employees for this project, for the term of the credit. Failure to do so will result in the remaining years to be forfeited.
- Investment made prior to the MEGA Board approval (approximately \$750,000) will not be considered eligible capital investment for purposes of this project and will not be part of the retention MEGA calculation.