

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

DATE: October 17, 2006
TO: Michigan Economic Growth Authority
FROM: Jim Donaldson, MEDC
SUBJECT: Standard MEGA Tax Credit and
Brownfield Redevelopment SBT Credit
BASF Corporation (Johnson Polymer Plant Relocation)

COMPANY APPLICANT:

BASF Corporation
1609 Biddle Avenue
Wyandotte, Michigan 48192

Contact: Mr. K. Edward Nuernberg, General Manager
BASF Corporation

HISTORY OF COMPANY:

BASF Corporation was formed in 1986 and is the North American affiliate of BASF AG, of Ludwigshafen, Germany, one of the world's leading chemical companies. BASF has a strong portfolio of products that ranges from chemicals, plastics, performance products, agricultural products and fine chemicals to crude oil and natural gas. In 1969, BASF acquired Wyandotte Chemicals Corporation in Wyandotte, Michigan. Today, BASF has approximately 94,000 employees worldwide and sales over \$50 billion. BASF Corporation is headquartered in New Jersey and employs about 16,000 people in North America, including over 2,000 in Michigan.

PROJECT DESCRIPTION:

BASF Corporation is considering the relocation of the recently purchased Johnson Polymer business from Wisconsin to Wyandotte, Michigan. The Johnson Polymer business was purchased from JohnsonDiversey and as part of the acquisition, BASF needs to relocate those operations. The products being relocated include Solid Grade Oligomer Resins, resins blends and cuts and Emulsion Polymers.

The initial phase of the relocation will include the transfer of 70 research and development, sales, marketing and customer support staff. This will occur in 2007. The second phase will require the construction of 110,000 square feet of new buildings to house the manufacturing production of these products. In total, 175 new jobs are expected to be created to support this project, with average weekly wages of \$1,319. Total investment for the project will be \$150 million, including \$40 million for new buildings and site improvements, and \$110 million for new machinery and equipment.

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BROWNFIELD PROJECT ELIGIBILITY:

The project is located in the City of Wyandotte, a qualified local governmental unit. The property is a facility and is the subject of a brownfield plan approved by the City of Wyandotte on October 9, 2006. The applicant is a qualified taxpayer that owns the eligible property.

BROWNFIELD ANALYSIS:

Brownfield SBT Credits are based on several criteria outlined in the statute. These are discussed below.

a) The overall benefit to the public:

The project will relocate jobs and manufacturing production from Wisconsin to an existing Michigan chemical manufacturer. The project will lead to the creation of 175 highly paid jobs and an investment of \$150 million at the BASF site in Wyandotte. This investment will help to stabilize this site and should lead to further investment by the company in the future.

b) The extent of reuse of vacant buildings and redevelopment of blighted property:

None. This project will lead to the new construction of an 80,000 square foot building and a 30,000 square foot building.

c) Creation of jobs:

It is anticipated that 175 new jobs will be created due to this project.

d) Whether the eligible property is in an area of high unemployment:

The unadjusted unemployment rate for Wyandotte was 5.9% in August 2006. This compares to the statewide seasonally adjusted average of 7.1% in August 2006.

e) The level and extent of contamination alleviated by the qualified taxpayer's eligible investment to the extent known to the qualified taxpayer:

It is anticipated that BASF Corporation will need to alleviate and dispose of contaminated soils that may be present in the construction area of this project. The estimated costs to address contamination at the site are \$2 million.



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- f) The level of private sector contribution:

BASF Corporation anticipates spending \$150 million in capital investment for this project.

- g) The cost gap that exists between the site and a similar greenfield site as determined by the Michigan Economic Growth Authority:

In addition to the Wyandotte site, BASF Corporation was also considering a Greenfield site in Chattanooga, Tennessee for this facility. The site in Chattanooga is not contaminated and no expense is anticipated for brownfield conditions at that site. In Wyandotte, BASF estimates they could have to spend up to \$2 million to alleviate contaminated soil conditions at the site. In addition, the Tennessee site had lower operational cost in a number of areas when compared to the Wyandotte site.

- h) If the qualified taxpayer is moving from another location in this state, whether the move will create a brownfield:

The manufacturing production and jobs are being moved from Wisconsin.

- i) Whether the financial statements of the qualified taxpayer indicate that it is financially sound and that the project is economically sound:

A review of the financial statements of BASF AG indicates the company is financially sound and able to undertake this project.

- j) Any other criteria that the Michigan Economic Growth Authority considers appropriate for the determination of eligibility:

Without the incentives being offered for this project, Michigan would not be able to compete with an alternative site in Tennessee for this project.

BENEFIT TO THE STATE:

According to the economic analysis completed by the University of Michigan utilizing Regional Economic Models, Inc. software, we estimate this project will generate a total of 648 jobs in the state by the year 2016. Total state government revenues through the year 2016, net of MEGA and Brownfield costs and adjusted for inflation, would be increased by \$23.2 million (2006 dollars) due to the presence of this facility.



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BUT FOR:

BASF Corporation also considered an existing facility in Chattanooga, Tennessee for this relocation. The Tennessee site offered operational cost savings in a number of areas including lower wages, real property tax costs, and corporate income tax liabilities due to a loss position in Tennessee. In addition, Tennessee was offering incentives for this project and the site in Tennessee was not contaminated, so the company would not have to address any brownfield conditions at that site.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide a 100 percent abatement of the six-mill State Education Tax for a period of time to match the local PA 198 property tax abatement. The value of this abatement is estimated at \$1.3 million.

The City of Wyandotte is considering both a PA 198 real property tax abatement for twelve years and a PA 328 personal property tax abatement for twenty years. The estimated value of the PA 198 abatement is \$6.3 million and the estimated value of the PA 328 abatement is \$28.7 million. The City of Wyandotte expects approval of the tax abatements by the end of November, 2006.

BROWNFIELD ELIGIBLE INVESTMENT BREAKDOWN:

The eligible investment to be undertaken by BASF Corporation includes:

Site Improvements	\$ 23,000,000
New Construction	\$ 17,000,000
Addition of Machinery & Equipment	<u>\$110,000,000</u>
TOTAL	\$150,000,000

RECOMMENDATION:

The Michigan Economic Development Corporation recommends approval of a 100 percent standard employment tax credit for 10 years, for up to 175 net new jobs.

In addition, the brownfield redevelopment staff recommends approval of a MEGA SBT Brownfield Redevelopment Credit of 10% of the eligible investment, not to exceed a \$15 million credit.