



John Engler, Governor

Doug Rothwell, Chief Executive Officer
and Department Director

MEMORANDUM

DATE: October 8, 1996

TO: Michigan Economic Growth Authority

FROM: Douglas E. Stites, Chief Operating Officer

SUBJECT: Briefing Memo - CMI International, Incorporated

COMPANY NAME:

CMI International, Incorporated
30333 Southfield Road
Southfield, Michigan 48076

HISTORY OF COMPANY:

CMI International is headquartered in Southfield, Michigan. CMI is a major manufacturer of machined cast and molded products, including polymer intake manifolds for the automotive industry. CMI is a tier one supplier to the automotive industry. CMI is privately held and Ray Witt, president, is the principal stockholder. CMI employs 1,649 full-time employees in Michigan and 4,330 worldwide. The company has grown steadily in both the U. S. and in Mexico where there are about 1,500 employees. Due to expanded automotive business for intake manifolds, the company needs to expand its molding capacity.

PROJECT DESCRIPTION:

Because the company lacks adequate production equipment in its existing operations, this project will locate a polymer intake manifold molding operation in an existing CMI facility in either Nuevo Laredo, Mexico or in Summerfield Township (Monroe County). This plant will supply customers including the Big Three and at least one foreign-domestic automobile assembler. Most of these customers are located in the midwest or central states. This project will invest approximately \$50.4 million in building renovations and equipment. It will create up to 205 new jobs with an average weekly wage of \$637/week. This will create an annual payroll of approximately \$6.8 million at full production. CMI has an employee benefit package that averages approximately 31 percent of payroll.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 544 new jobs in the state by the year 2011. Total state government revenues through the year 2011, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation would be increased by \$16,328,000 (1996 dollars) due to the presence of the CMI facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Mexico and Summerfield Township, Michigan. Based on figures obtained from the company, the annual cost disadvantage for CMI to establish their manufacturing facility in Summerfield Township rather than Nuevo Laredo ranges from approximately \$1.6 million to \$3.5 million over the term of the incentive. The cost differential is primarily attributable to wages, workers compensation, unemployment insurance and business tax costs. Michigan Jobs Commission staff have examined these numbers and believe they are a fair representation of the cost differential between Michigan and Mexico.

The company has also presented mitigating factors that, although not all quantifiable, assist in closing the cost gap for a Michigan location. These mitigating factors include:

- A cost advantage of a production start-up closer to manufacturing engineering at the Ferndale research and development headquarters which the company feels is worth approximately \$750,000 annually;

- More experienced workers available for factory set-up and build-in, and;

The advantage of production facilities close enough for customers to visit on a regular basis without significant time committed to travel. CMI feels this would provide up to \$10 million in business that would not be available if the project was to locate in Mexico.

However, this decision to locate in Michigan could not be considered without the annual cost offset approaching \$850,000 annually from the MEGA credit.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will be providing a 100 percent abatement of the 6 mill school property tax for a period of 12 years worth up to \$685,732. Workforce development assistance at \$1,000 per new employee, for up to 205 employees with a total value of \$205,000, will also be provided.

Local tax abatements for a period of 12 years, estimated to be worth approximately \$1,915,036 will be offered to the company.

BUT FOR:

The company has examined the cost differential between locating in Mexico or Michigan and also the factors that could influence it to locate in Michigan despite a cost disadvantage. The company would not consider locating in Michigan without the MEGA credit to offset tax and wage differentials. CMI has shown it has the ability to locate productive and profitable facilities in Mexico in the past and feels that it could overcome any start-up disadvantages over time.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 15 years for up to 205 net new employees and a business activity credit of 100 percent for a period of 15 years.