

# MEMORANDUM

**Date:** October 26, 2010  
**To:** Michigan Economic Growth Authority  
**From:** Phil Santer, Project Specialist  
Packaging Team  
**Subject:** Briefing Memo – Chrysler Group LLC  
Retention MEGA Credit

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## COMPANY NAME

Chrysler Group LLC  
1000 Chrysler Drive  
CIMS: 485-12-30  
Auburn Hills, Michigan 48326-2766

## HISTORY OF COMPANY

Chrysler Group LLC (“Chrysler”) is a new company that designs, manufactures, and assembles passenger cars and trucks under Chrysler, Dodge, Jeep and Ram Truck brand names. Chrysler Group LLC was formed from the operating assets of Chrysler LLC, which is now known as Old Carco LLC. Old Carco LLC is currently in bankruptcy.

Chrysler Group LLC was formed in June 2009 as an alliance with Fiat N.A. LLC, which owns 20% of the company. Other owners of Chrysler Group LLC include the Canada CH Investment Corporation, the U.S. Department of Treasury, and the United Auto Workers’ Retiree Medical Benefits Trust.

The company currently has 21,871 employees in Michigan.

## PROJECT DESCRIPTION

Chrysler is currently conducting a feasibility study to determine the future of the Sterling Heights Assembly Plant (also known as “SHAP”). SHAP currently produces a product line that is scheduled to cease operations in December 2012. Chrysler’s feasibility study is evaluating the potential for reinvestment of SHAP for new small-to-mid-size vehicle production, including a new paint shop. The company is evaluating this investment relative to their other facilities, including the Toledo North Assembly Plant, located in Toledo, Ohio. In addition, the company is considering a significant investment at their Global Engine Manufacturing Alliance (“GEMA”) facility in Dundee, Michigan.

The potential investment in SHAP and GEMA would serve to anchor the company’s presence in Michigan, which would increase demand and support from other Michigan facilities, including the company’s headquarters in Auburn Hills. The investment would leverage the retention of over 20,000 of Chrysler’s employees throughout Michigan.

Chrysler plans to invest up to \$1 billion and retain over 20,000 jobs over the next five years as a result of this project. The company has indicated that an additional \$1 billion in investment is possible over the incentive period. The average weekly wage for the newly created jobs will be \$1,040. 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 92,920 jobs in the state by the year 2032. It is also estimated that the project would maintain total state government revenues through the year 2032, net of MEGA costs, of \$9.2 billion (current dollars) due to the retention of this facility.

### **BUSINESS CASE**

Chrysler is evaluating this investment relative to a location in Toledo, Ohio. The criteria used by Chrysler to make this decision include the availability of financial incentives, the taxing structure of the state and local governments, and the forecasts for the proposed investment, and the associated return on investment.

According to the company, the location in Michigan is at a disadvantage because of high costs associated with the paint shop at SHAP, high salaried labor costs and Michigan's personal property tax.

### **OTHER STATE AND LOCAL ASSISTANCE**

The MEDC, the City of Sterling Heights and other local entities submitted a competitive incentive package to attract this investment to Michigan and to retain these employees. The City of Sterling Heights is supportive of this project and will consider approval of property tax abatements under P.A. 328 of 1998 and P.A. 198 of 1974.

In addition, the MEDC is supportive of a Large Brownfield Michigan Business Tax credit on the facility in the City of Sterling Heights. The MEDC will present this incentive to the MEGA Board for consideration at a later time.

### **RECOMMENDATION**

Based on the factors described above, the Michigan Economic Development Corporation recommends up to a 100 percent retention employment tax credit for 20 years for the 20,000 retained employees in Michigan. The company must meet the following requirements to access the credit; failure to do so will result in the credit not being available that tax year:

- The company must maintain at least 7,200 full-time employees within the state of Michigan, including 4,275 full-time employees at their headquarters in the City of Auburn Hills;
- The company must make an initial investment of \$360 million to activate the credit;
- The company may not earn credit on wages greater than \$55,000 for employees located at the headquarters in the City of Auburn Hills; and
- The company must set aside existing MEGA Tax Credits upon activation of this credit.