



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: June 17, 2008  
TO: Michigan Economic Growth Authority

FROM: Val Hoag, Director  
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Portfolio Management & Packaging

SUBJECT: Briefing Memo – MAHLE Engine Components USA, Inc.  
Rural MEGA Credit

COMPANY NAME: MAHLE Engine Components USA, Inc.  
916 W. State Street  
St. Johns, MI 48879

HISTORY OF COMPANY:

The MAHLE group of businesses, MAHLE GmbH, is a leading global manufacturer of components for the automotive and heavy duty engine industry. They are among the top 30 Tier 1 suppliers globally.

MAHLE Engine Components has been a prominent employer in the rural community of St. Johns for over 60 years. It was built by Sealed Power Corporation in 1946 to produce automotive piston rings. In 1997, the plant and the piston ring business was sold to Dana Corporation. Finally, in March of 2007, MAHLE Engine Components USA, Inc. purchased the business from Dana Corporation.

MAHLE currently employs 935 employees in Michigan, which includes 311 at this St. Johns plant.

PROJECT DESCRIPTION:

The proposed project is for an expansion to the St. Johns facility in order to expand and diversify their piston ring production. On May 1, 2008, MAHLE announced the closure of its Manchester, Missouri piston ring manufacturing plant. The most important products currently made by the Manchester plant are high value added, high technology, heavy duty rings. Some of the coatings produced in Manchester cannot be produced in any other global location.

In order to take on the expansion, the company would invest in a 30,000 sq. ft. expansion to the existing plant in St. Johns, as well as the purchase of \$10.5 million in new equipment and \$4.5 million in equipment transferred from Manchester, Missouri. The total capital investment over five years is estimated at \$18.2 million.

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The proposed project would create a total of 150 jobs over the next five years, paying an estimated average weekly wage of \$691. The company will also offer health care benefits and pay a portion of the benefit costs.

**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 generate a total of 534 jobs in the state by the year 2018. Total state government revenues through the year 2018, net of MEGA costs and adjusted for inflation, would be increased by \$13.9 million (2008 dollars) due to the presence of this expansion.

**BUSINESS CASE:**

Other locations under consideration are Mexico, Brazil, Spain, and Franklin, KY. The production from the Manchester site will be transferred during 2008 and 2009 to one of these existing MAHLE piston ring plants. All are very capable plants whose management teams are making a case to receive additional work and in particular the heavy duty rings business.

Although St. Johns, Michigan provides an efficient and productive workforce, wages and up front expansion costs results in a significant cost gap for the Michigan location. This resulted in a \$1.9 million gap for construction costs and an annual cost gap as high as \$3 million due to wages and utility costs.

**LOCAL ASSISTANCE:**

The MEDC has approved training funds for the project. Through our Economic Development Job Training program, the MEDC will provide an employee training grant of \$2,500 per employee, for up to \$100,000.

The MEDC is also recommending approval for up to \$600,000 in CDBG funds for infrastructure improvements that directly benefits this proposed expansion. The funds will be provided to the City of St. Johns to assist in the construction of a new street adjacent to the MAHLE facility and capping a drain located in front of their main facility.

The City of St. Johns supports the MAHLE expansion and has approved a 50 percent real property tax abatement for 12 years under PA 198 of 1974. The City of St. Johns has also approved a 100% blanket exemption on all new personal property for 12 years under PA328 of 1998. The estimated value of this abatement is \$1.7 million.

**RECOMMENDATION:**

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent rural employment tax credit for 10 years, for up to 150 net new employees.