



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: June 17, 2008
TO: Michigan Economic Growth Authority
FROM: Val Hoag, Director
Portfolio Management & Packaging *VH*
Greg West, Project Specialist
Business Development and Attraction

SUBJECT: Briefing Memo – Production Engineering, Inc.
Standard and Retention Credit

COMPANY NAME:

Production Engineering, Inc.
2330 Brooklyn Road
Jackson, MI 49230

HISTORY OF COMPANY:

Production Engineering is a manufacturer of precision machined components for wheel end, steering and drive train applications for speciality truck and construction equipment axles. Principal products include many complex, high precision axle components and the manufacturing equipment now includes over seventy high-tech CNC machining and turning centers.

The Company was founded in 1974 with three employees, initially machining small components for various customers. The Company grew rapidly and relocated to a new building in 1982. This building was expanded three times to accommodate additional growth. The Company employs 112 full time employees currently. The manufacturing operation has outgrown its current 68,000 square foot building.

PROJECT DESCRIPTION:

Production Engineering has outgrown the leased building it occupies and needs to relocate to a larger facility. The proposed project includes the purchase of an existing 440,000 square foot warehouse located in the city of Jackson, Michigan. This project will require revitalization of the building to prepare it for manufacturing operations. Upgrades will include: electrical service enhancements, installation of compressed air systems, new lighting, a new process water system, overhead cranes, and construction of offices and manufacturing support facilities. Total investment over 5 years is expected to exceed \$11 million. This project will retain 112 jobs with an average weekly wage of \$670 and create up to 122 new jobs with an average weekly wage of \$604. The company will also offer health care benefits and pay a portion of the benefit costs.

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BENEFITS 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 create a total of 436 jobs in the state by the year 2018. We also estimate that the project would create total state government revenues through the year 2018, net of MEGA cost and adjusted for inflation, of \$10.2 million (2008 dollars) due to the creation of these new jobs.

BUSINESS CASE:

As an alternative, Production Engineering is considering a site in Indiana for this project. Indiana is offering a lucrative incentive package that includes the purchase of an existing building at a deeply discounted price. Granting of these credits will allow the company to operate the business in Michigan while remaining cost competitive. Additionally, undertaking the project in the City of Jackson will result in greater potential for future investment in Michigan and future expansion of Production Engineering is expected to occur at the location chosen for this expansion.

STATE AND OTHER LOCAL ASSISTANCE:

The City of Jackson supports the Production Engineering, Inc. project and anticipates approval of a Renaissance Zone and property tax abatements under PA 328 for a period of 20 years.

RECOMMENDATION:

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent employment tax credit for 10 years, for 122 new employees, and a 100 percent retention credit for 10 years, for up to 112 retained employees, subject to the following:

- The company must complete an initial capital investment of \$5,000,000 to activate a 100 percent retention credit for 50 retained jobs.
- Subsequent eligible investments of \$500,000 will allow the company to gain an additional 100 percent retention credit for 5 retained jobs, up to a maximum of 112 retained jobs.
- The total investment must exceed \$11,200,000 to qualify the company for a 100 percent retention credit for all 112 retained jobs.
- No additional MEGA approved incentives will be offered for this project.