



MEMORANDUM

DATE: January 3, 2014

TO: Senator John Pappageorge, Chair
Senate Appropriations Subcommittee
on General Government

Representative Earl Poleski, Chair
House Appropriations Subcommittee
on General Government

Senator Mike Kowall, Chair
Senate Economic Development
Committee

Representative Frank Foster, Chair
House Commerce Committee

FROM: Michael A. Finney
President and CEO

SUBJECT: FY 2013 Battery Cell Manufacturing Credits Report

As required under Section 434 of Public Act 36 of 2007, the Michigan Business Tax (MBT) Act, the Michigan Strategic Fund shall report on Battery Cell Manufacturing Credit project agreements created under MCL 208.1434(6) before July 1, 2012 and for project agreements amended after December 1, 2011 but before July 1, 2012 under MCL 208.1434(5). Pursuant to this requirement, attached is the fiscal year 2013 report.

If you have any questions regarding this report, please contact James McBryde in our Office of Governmental Affairs at (517) 335-1847.

cc: Senator Bert Johnson, Minority Vice Chair, Senate Appropriations Subcommittee on
General Government
Representative Fred Durhal, Minority Vice Chair, House Appropriations Subcommittee on
General Government
Senator Virgil Smith, Minority Vice Chair, Senate Economic Development Committee
Representative Jon Switalski, Minority Vice Chair, House Commerce Committee

Battery Cell Manufacturing Credits
Report to the Legislature
Fiscal Year 2013

Section 434 of the Michigan Business Tax Act, Public Act 36 of 2007, allows the Michigan Economic Growth Authority (MEGA) to enter into agreements to provide tax credits or certificates to stimulate the domestic commercialization and affordability of high-power energy batteries. These are referred to as Battery Cell Manufacturing Credits.

MCL 208.1434(15) requires a report on project agreements created under MCL 208.1434(6) before July 1, 2012 and for project agreements amended after December 1, 2011 but before July 1, 2012 under MCL 208.1434(5). Under MCL 208.1434(5), five companies were granted the authority to enter into agreements with the MEGA.

The companies that were authorized by MEGA Resolution are:

- A123 Subsystems, Inc.
- Dow Kokam MI, LLC
- fortu PowerCell, Inc.
- LG Chem Michigan, Inc.
- Johnson Controls-Saft APS Production Inc.

All five companies have executed agreements with the MEGA. Under MCL 208.1434(6), one company, Xtreme Power, Inc., was granted the authority to enter into an agreement with the MEGA, but the agreement was never executed.

Executive Order 2012-9 transferred all powers and responsibilities from the MEGA to the Michigan Strategic Fund (MSF). No authority exists to award new tax credits against the MBT.

Below is the detail for each battery cell project.

A123 Subsystems, Inc. was awarded a Battery Cell Manufacturing Credit by MEGA Resolution, as amended, on April 14, 2009 under MCL 208.1434(5). The Agreement was executed on November 20, 2009.

In October 2012, A123 Subsystems, Inc. filed for bankruptcy and a Federal court ordered a bid process to occur. Wanxiang America Corp. was the successful bidder for A123 Systems, Inc. Wanxiang created a subsidiary, A123 Systems, LLC, and the new LLC maintains facilities for battery production in the cities of Livonia and Romulus, Wayne County. A123 Systems, LLC does not have a Battery Cell Manufacturing Credit; the existing credit for 2012 remains with A123 Systems, Inc.

- By agreement, 300 jobs must be created no later than December 31, 2016.
- Job creation as of December 31, 2012 is 508 jobs and has been verified through the MEGA annual certificate application process.

- Indirect job creation* is estimated at 596 jobs.
- \$200 million of capital investment is required to obtain the full value of the credit over four years.
- The actual capital investment is \$258,102,365 as of July 2013 and has been verified by a third-party audit firm.
- Indirect revenue* as of July 2013 is estimated at \$44,901,962.

Dow Kokam MI, LLC was awarded a Battery Cell Manufacturing Credit by MEGA Resolution, as amended, on April 14, 2009 under MCL 208.1434(5). The Agreement, as amended, was executed on November 13, 2009.

- By agreement, 300 jobs must be created no later than December 31, 2018.
- Job creation as of December 31, 2012 is 128 jobs and has been verified through the MEGA annual certificate application process.
- Indirect job creation* is estimated at 146 jobs.
- \$200 million in capital investment is required over four years.
- The company reported capital investment of \$300,000,000 as of December 31, 2012, and is currently being verified.
- Indirect revenue* as of December 31, 2012, is estimated at \$17,073,704.

Since the company was awarded its battery credit, it has gone through a number of name changes and, as of December 6, 2013, the company's name is XALT Energy MI, LLC. The Federal Energy Identification Number remains the same as does the location in the City of Midland, Midland County.

fortu PowerCell, Inc. was awarded a Battery Cell Manufacturing Credit by MEGA Resolution on March 16, 2010 under MCL 208.1434(5). The Agreement, as amended, was executed on June 14, 2010. The company has not shown progress in its construction. To date, no capital investment, job creation or construction has occurred. No tax credit certificate has been issued.

LG Chem Michigan Inc., formerly known as Compact Power Inc., was awarded a Battery Cell Manufacturing Credit by MEGA Resolution, as amended, on April 14, 2009 under MCL 208.1434(5). The Agreement was executed on November 20, 2009.

- By agreement, 300 jobs must be created no later than December 31, 2015.
- The company reported a job creation number of 122 jobs as of December 6, 2013; however, this number will not be verified until the company has applied for the Battery Cell tax credit.
- Indirect job creation* is estimated at 143 jobs.
- \$200 million in capital investment is required over four years.
- The company reported capital investment of \$250,000,000 as of December 2013; however, this number will not be verified until the company has applied for the Battery Cell tax credit.
- Indirect revenue* as of December 2013 is estimated at \$16,867,966.

Johnson Controls-Saft APS Production Inc., a joint venture, was awarded a Battery Cell Manufacturing Credit by MEGA Resolution, as amended, on April 14, 2009 under MCL 208.1434(5). The Agreement, as amended, was executed on November 12, 2009.

Since that time, Johnson Controls dissolved its joint venture between Johnson Controls Inc. and Saft Advanced Power Solutions. The company, now known as Johnson Controls APS Production Inc., has set aside all credit agreements related to the battery project and now has the ability to collect vouchers rather than tax credits under PA 292 of 2011.

Xtreme Power, Inc. was awarded a Battery Cell Manufacturing Credit by MEGA Resolution on October 6, 2009 under MCL 208.1434(6). The company did not enter into an agreement with the MEGA.

* The Michigan Strategic Fund has utilized the Regional Economic Modeling Inc. (REMI) tool to determine an estimate for this legislative requirement. The REMI uses direct job creation numbers, direct capital investment numbers, North American Industry Code Standards (NAICS) and location information to calculate an approximate value for indirect job creation and indirect investment.