



MICHIGAN STRATEGIC FUND

DATE: January 3, 2017

TO: Senator Jim Stamas, Chair
Senate Appropriations Subcommittee
on General Government

Representative Laura Cox, Chair
House Appropriations Committee

Senator Wayne Schmidt, Chair
Senate Commerce Committee

Representative Joseph Graves, Chair
House Commerce & Trade Committee

Senator Ken Horn, Chair
Senate Economic Development &
International Investment Committee

FROM: Steve Arwood, President
Michigan Strategic Fund

SUBJECT: Battery Cell Manufacturing Credits Report

As required in 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, the attached report is being provided.

Please contact the MEDC Office of Legislative Affairs at 517.335.1847 if you have any questions.

Attachment

cc: Senator Coleman Young II, Minority Vice Chair, Senate Appropriations Subcommittee
on General Government
Representative Fred Durhal III, Minority Vice Chair, House Appropriations Subcommittee
on General Government
Senator Curtis Hertel, Jr., Minority Vice Chair, Senate Commerce Committee
Representative Andy Schor, Minority Vice Chair, House Commerce & Trade Committee
Senator Ian Conyers, Minority Vice Chair, Senate Economic Development & International
Investment Committee

**Battery Cell Manufacturing Credits
Report to the Legislature
Activity through December 31, 2016**

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(5), 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. A123 Subsystems, Inc. collected the tax credit in 2012, 2013, 2014 and 2015.

XALT Energy MI, LLC, formerly known as 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, 2015 was 163 jobs and was verified through the 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 \$200,000,000 as of December 2014 and was verified by a third-party audit firm.
- Indirect revenue* as of December 31, 2015, 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 Employer 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.
- Job creation as of December 31, 2015 was 409 and has been verified through the annual certificate application process.
- Indirect job creation* is estimated at 143 jobs.
- \$200 million in capital investment is required over four years.
- The company reported capital investment of \$291,069,338 as of December 2014 and was verified by a third-party audit firm.
- Indirect revenue* as of December 2014 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.