



MEMORANDUM

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DATE: February 8, 2000

TO: Michigan Economic Growth Authority

FROM: James Donaldson, Vice President
Michigan Business Development *James Donaldson*

SUBJECT: Briefing Memo – Flowserve FSD Corporation

COMPANY NAME AND ADDRESS:

Flowserve FSD Corporation
2100 Factory Street
Kalamazoo, Michigan 49001

HISTORY OF COMPANY:

Flowserve FSD Corporation is involved in research and development, engineering, and manufacturing of mechanical seals and sealing systems for rotating equipment, such as pumps and mixers, used in a variety of industries. The company was established in 1997 as a result of a merger between Durco International, Inc., and BW/IP International, Inc., two long-time suppliers to the fluid handling industry. Flowserve currently has 398 employees in Michigan; 362 at the Kalamazoo facility, 32 in Lake Ann, and four in Midland.

DESCRIPTION OF PROJECT:

Flowserve has announced that it will close ten of its current manufacturing facilities and consolidate some of these jobs into other facilities owned by the company in the U.S. Although the Kalamazoo facility is not slated for closure, this facility has the opportunity to attract some of these manufacturing jobs and strengthen its base of operations in Kalamazoo. In addition to manufacturing jobs, some CAD/CAM engineering jobs would follow. The CAD/CAM jobs are technician-level engineering jobs that could be performed anywhere in the world.

Capital investment for the project will include \$500,000 for building improvements and \$12 million in new equipment or equipment transferred from other states. Renovations to the facility would begin as early as February 2000, with anticipated completion in September 2000. The company would begin to transfer out of state

Governor John Engler
GENERAL CHAIR

Doug Rothwell
PRESIDENT & CEO

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employees in September 2000, with the first 75 jobs in place by September 2001. The company plans to transfer or hire a total of 125 people by 2003. The jobs will pay an average weekly wage of \$827 with a benefit package approximately 20 percent of wages.

BENEFIT TO THE STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 214 jobs in the state by the year 2020. Total state government revenues through the year 2020, net of MEGA costs and adjusted for inflation, would be increased by \$14,525,000 (2000 dollars) due to the presence of the Flowserve FSD Corporation facility.

COST ANALYSIS:

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Michigan and Tlaxcala, Mexico (close to Mexico City). Based on figures obtained from the company, the cost disadvantage for Flowserve to consolidate operations in Kalamazoo rather than Tlaxcala, Mexico ranges from \$1 million to \$3 million annually over the term of the incentive. The most significant factor is wages, which are much less in Mexico than in Michigan.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will provide Flowserve with a 100 percent abatement of the six-mill State Education Tax for a period of time to match the local property tax abatement. We estimate the value of this abatement to be \$151,715. In addition, the state will provide job training assistance of \$1,000 per job for up to 125 net new jobs, for a total of up to \$125,000 and \$500 per job for 362 existing jobs, for a total award of \$306,000. The city of Kalamazoo will provide a 50 percent property tax abatement for a period of 12 years on real property and six years on personal property. The value of this abatement is estimated at \$745,954.

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BUT FOR:

Due to the company's desire to institute cost-cutting strategies, a cost differential of \$1 million to \$3 million per year makes it difficult to justify consolidation in Michigan. However, the company recognizes that moving the operation to Mexico will result in a large increase in intangible costs. The Kalamazoo facility offers a strong base for the company's engineering resources. The synergy of expanding in Kalamazoo presents a significant advantage. The company recognizes that Michigan has excellent resources in technical training and advanced engineering. These resources are a valuable asset that would allow the company to keep current with the latest technology in fluid handling systems design, engineering, and manufacturing. Flowserve would like to consolidate in Kalamazoo but needs assistance from the state to alleviate some of the cost differential.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 125 net new jobs for a period of 10 years and 50 percent for the next 10 years. In addition, a business activity credit of 100 percent for 10 years and 50 percent for 10 years is recommended.