



John Engler, Governor

Doug Rothwell, Chief Executive Officer
and Department Director

MEMORANDUM

DATE: April 8, 1997

TO: Michigan Economic Growth Authority

FROM: Douglas E. Stiles, Chief Operating Officer

SUBJECT: Sprayform Technologies International, a Howmet and United Technologies Corporation, Pratt & Whitney Joint Venture

COMPANY NAME:

Sprayform Technologies International
Operhall Research Center
1500 South Warner Street
Whitehall, Michigan 49461-1895

HISTORY OF COMPANY:

Sprayform Technologies International is a joint venture between Howmet Corporation headquartered in Greenwich, Connecticut, and Pratt & Whitney, a subsidiary of United Technologies Corporation, based in Hartford, Connecticut. Howmet owns 51 percent of the joint venture and also controls the majority of the voting rights.

Consolidated sales of Howmet Corporation are \$900 million from seven domestic manufacturing facilities and two international facilities in Canada and France, which employ 8,000 people. During 1995, Howmet Corporation became a subsidiary of the Carlyle Group of Washington, D.C. (51 percent ownership), a merchant banking group, and Thiokal Corporation (49 percent ownership) which has the right to acquire all stock in 1998.

Sprayform Technologies International
April 8, 1997
Page Two

Howmet of Whitehall, which employs 1,950 people, manufactures titanium investment castings for jet aircraft and other gas turbine engines.

Pratt & Whitney, which manufactures aircraft engines and parts, represents 27 percent of United Technologies' business segments. United Technologies Corporation's 1995 sales exceeded \$22 billion. Pratt & Whitney has no facilities in Michigan.

PROJECT DESCRIPTION:

Sprayform Technologies International will manufacture aerospace component parts. Howmet of Whitehall has developed breakthrough technology for producing rings and cases for jet engines. Sprayform technology reduces production cost, lead time, and extra materials relative to traditional foundry processing. The project's objective is to introduce this new technology for form casting component parts for the aerospace industry.

Estimated job creation for this project is 130 through the year 2003. At least 75 jobs would be created by December 31, 2000, when full production is expected. Average weekly wage per employee is estimated at \$600 (\$15/hour) and a 43 percent base labor benefit package is also offered. Estimated investment is \$8,800,000 in plant, machinery, and equipment. Equipment is specialized due to the nature of the technology and will be built by Howmet Corporation.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 333 new jobs in the state by the year 2019. Total state government revenues through the year 2019, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation would be increased by \$13,367,000 (1996 dollars) due to the presence of the Sprayform Technology facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Columbus, Georgia, and Whitehall, Michigan. Based on figures obtained from the company, the annual cost disadvantage for the joint venture to establish their manufacturing facility in Whitehall, Michigan, rather than Columbus, Georgia, ranges from approximately \$821,000 to \$2.6 million over seven years. The cost differential is primarily attributable to building occupancy costs, wages (the nonunion wage costs in Georgia are 40 percent less), utility costs, business tax costs, and incentives offered by the State of Georgia. Michigan Jobs Commission staff have examined these numbers and believe they are a fair representation of the cost differential between Michigan and Georgia. The company has also described mitigating factors that, when quantified, assist in closing the cost gap for a Michigan location. These mitigating factors include a cost advantage of start-up production being closer to the manufacturing engineering staff at the Operhall Research Center, elimination of transportation costs of shipping parts back to Michigan from Georgia for further processing, and future requirements for machinery installation of related processes on site which are currently available in Whitehall. However, the decision to locate in Michigan could not be considered without the annual cost offset averaging \$425,000 annually from the potential MEGA credit.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will be providing a 100 percent abatement of the 6 mill school property tax for a period of 12 years worth up to \$179,028. Workforce development assistance at \$2,000 per new employee for up to 130 employees with a total value of \$260,000 will also be provided.

Local tax abatements for a period of 12 years, estimated to be worth approximately \$705,073 will be offered to the company by the City of Whitehall.

Sprayform Technologies International
April 8, 1997
Page Four

BUT FOR:

Due to the availability of a vacant facility in Georgia, owned by Pratt & Whitney, the joint venture has the option of locating in Columbus at lower wage, building, and tax costs.

However, the company has examined other factors that could influence it to locate in Michigan despite this quantifiable cost disadvantage. With the potential MEGA credit to cover a portion of the tax and wage differentials, the company will consider locating in Michigan.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 130 net new employees and a business activity credit of 100 percent for a period of 7 years.