MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: August 19, 2008

TO: Michigan Economic Growth Authority

FROM: Val Hoag, Director
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SUBJECT: Briefing Memo – Precision Aerospace Corp.
Standard Credit

COMPANY NAME:

Precision Aerospace Corp.
704 Crofton Southeast
Grand Rapids, Michigan 49507

HISTORY OF COMPANY:

Precision Aerospace Corp. (PAC), currently located in Grand Rapids, is a manufacturer of high-tolerance components and assemblies for the aerospace and defense industries. Founded in 1956 by others, current ownership was affected in 1990 by William Hoyer. Subsequent acquisitions, Johnson Mfg. of Grand Rapids and Alta Engineering of Sun Valley,California were affected in 1995 and 2000 respectively, both moved to the 704 Crofton address and under the auspices of Precision. The company's growth has remained steady and includes expansion from basic stamping, fabrication and machining to current complex processing including five axis complex machining, flat lapping to .000003", NADCAP GTAW welding and a myriad of other high tech offerings to its aerospace and defense clients.

The company currently employs 122 people in Michigan.

PROJECT DESCRIPTION:

Precision Aerospace has identified several new growth opportunities and is looking to expand its operations to accommodate the current and future growth of the company. The largest of the new programs that PAC will undertake is from its largest customer, Woodward Governor Corporation (WGC), out of Rockford, Illinois. Due to accelerated growth and the need for additional internal space, WGC needs to outsource 190,000 man-hours of high tech, complex, precision machining for approximately 1500 unique aerospace/defense parts. PAC has been awarded a contract for approximately 500 of these unique part number items – which equates to about 85,000 direct labor hours. Additionally, PAC has identified two more growth opportunities, in the land-based defense arena supporting L-3 combat propulsion systems and through several domestic locations of Parker Hannifin. All the growth is in aerospace components that support actuation and hydraulic systems.

The company would like to accommodate the immediate needs of this growth at its existing Grand Rapids and Wyoming facilities and has identified an immediate additional need of approximately 20,000 square feet and another 30,000 square feet in 2-3 years. The company plans to invest about $2.3 million in facilities and $7.8 million in machinery and equipment through the next five years as a result of this expansion project. The company is committed to retaining its existing workload in Michigan and also creating an additional 190 jobs paying an average weekly wage of $724. The company will also offer health care benefits and pay a portion of the benefit costs.

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 349 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 $8 million (2008 dollars) due to the creation of these new jobs.

BUSINESS CASE:

Precision Aerospace was able to include the proposed state and local incentives into the bidding process during customer negotiations and address concerns and disadvantages. In particular, WGC had concerns about the outsourced work being done in Michigan, the negative perception of unionized workforce, and high unemployment rate. During the negotiation process PAC was informed that its labor rate was high compared to its competitors. Being able to factor in the tax credit incentive and demonstrate to WGC the commitment of both state and local governments was a very important part of being awarded this new work with WGC.

In addition, PAC has identified several other areas that put them at a disadvantage, including: higher transportation costs, higher equipment relocation costs, and increased recruitment costs to identify key skilled managerial and production employees.

The proposed state and local incentives enabled PAC to level the playing field and compete evenly with the companies located much closer to the WGC and in states that have a more business friendly environment.

STATE AND OTHER LOCAL ASSISTANCE:

The City of Grand Rapids and the City of Wyoming are supportive of this expansion and have indicated that they will support a P.A. 198 Personal Property Tax abatement for a term of up to 12 years. The abatement is expected to be approved within 90 days.

RECOMMENDATION:

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent employment tax credit for 10 years, for up to 190 net new employees.