



MICHIGAN JOBS COMMISSION

201 N. WASHINGTON SQUARE
VICTOR OFFICE CENTER, 4TH FLOOR
LANSING, MICHIGAN 48913
PHONE: 517.335.5883
FAX: 517.373.0314
CUSTOMER ASSISTANCE: 517.373.9808
MICHIGAN RELAY CENTER: 800.649.3777
HTTP://WWW.MJC.STATE.MI.US

MEMORANDUM

DATE: February 19, 1998

TO: Michigan Economic Growth Authority

FROM: James Donaldson, Director
Michigan Business Development *James Donaldson*

SUBJECT: Briefing Memo - Smiths Industries Aerospace

COMPANY NAME:

Smiths Industries Aerospace
4141 Eastern Avenue, SE
Grand Rapids, Michigan 49518-8727

HISTORY OF COMPANY:

Smiths Industries, a British-owned company, has its United States headquarters in Wyoming, Michigan. The company is a major supplier of avionics systems for commercial and defense uses. Currently, the company employs 859 in Michigan. In the past, the company has employed as many as 1200 in Michigan. The company had experienced a severe down-turn in the aerospace industry in the past and has reached an employment plateau at the current level. The company is moving from a 32 year old building in Wyoming to a smaller facility in Cascade Township that better reflects the company's size and efficiency requirements and the company's high tech image. The company has an opportunity to expand its Michigan operation to meet new demand for its products.

PROJECT DESCRIPTION:

This expansion would involve a transfer of certain research and development functions from Florham Park, New Jersey, to Cascade Township. This expansion would result in the addition of up to 105 engineers and technicians in Grand Rapids. Average weekly wage for these new jobs would be at least \$1,390 with a benefit package of approximately 25 percent of wages. Investment in building renovations would be about \$10 million with additional equipment purchases of approximately \$7.5 million.

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Costs for recruitment of 105 new aerospace engineers and technicians to Michigan are estimated to be \$6.7 million greater than New Jersey because of the unavailability of these specialized skills in Michigan, the concentration of related facilities in New Jersey, and the perception of Michigan as outside of the aerospace industry sphere.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 233 jobs in the state by the year 2009. Total state government revenues through the year 2009, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$7,816,000 (1998 dollars) due to the presence of the Smiths facility.

COST ANALYSIS:

With the assistance of Coopers & Lybrand, the company has undertaken a comprehensive cost analysis between Florham Park and Cascade Township. While business costs for this type of facility, such as taxes and utilities, are lower in New Jersey, Michigan enjoys a small cost advantage for wages. This wage differential is due to the lower cost of living in Michigan compared to New Jersey. However, transferring the research and development functions to Michigan would result in significant additional costs which would not be realized by retaining these functions in New Jersey. The difficulties in recruiting employees to Michigan will involve significant costs for a talent search, recruitment, and relocation. These costs are estimated to be \$6.7 million. These costs would be incurred due to the unavailability of these specialized skills in Michigan and the concentration of these skills elsewhere in the country.

BUT FOR:

Without the MEGA incentive, the company feels that the best business decision would be maintain its current employment in Michigan and not incur the recruitment and training costs, unique to Michigan, for any new employees.

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OTHER STATE AND LOCAL ASSISTANCE:

The company has received a commitment for \$250,000 (\$2,404 per new employee) in training assistance, a 6-mill State Education Tax abatement estimated at \$116,600, and recruitment assistance. The local community has granted a 9 year abatement on the facility and for the new equipment and modifications required to accommodate this expansion over the next three years.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for 10 years and a business activity credit of 100 percent for 10 years for up to 105 net new jobs.