

MEMORANDUM

Date: July 20, 2010

To: Michigan Economic Growth Authority

From: Marcia Gebarowski, Project Specialist
Packaging Team

Subject: Briefing Memo – Waltonen Engineering, Inc.
High Technology MEGA Credit

COMPANY NAME

Waltonen Engineering Inc.
31330 Mound Road
Warren, Michigan 48092

HISTORY OF COMPANY

Waltonen Engineering Inc., founded in 1957, provides engineering and design services to the aerospace, automotive, defense, medical and heavy equipment industries. Waltonen has extensive experience in product design, manufacturing, quality, engineering and program management with various government and commercial customers.

Waltonen Engineering Inc. currently has 125 employees in Michigan.

PROJECT DESCRIPTION

Waltonen has been awarded three major contracts in the defense and automotive industries. The two defense contracts involve engineering analysis, product design, manufacturing analysis and engineering modifications to military ground vehicles. The automotive contract will consist of engineering, design, program management and quality analysis for a major European company. The company will need to expand due to growth in business.

Waltonen will look to expand headcount at its two existing facilities in the City of Warren, 31330 Mound Road and 5505 Thirteen Mile Road. The company plans to renovate its headquarter facility on Mound Road and expects to lease additional space as needed at the Thirteen Mile site. The company may also acquire a third building if both existing facilities cannot accommodate the proposed expansion. The company also plans to purchase new equipment necessary for the new work to be performed.

The company plans to invest approximately \$9 million and create up to 145 jobs over the next five years, with 29 jobs projected in year 1, as a result of this project. The average weekly wage for the newly created jobs is anticipated to be \$872. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost.

The effect on other Michigan businesses in the same industry was taken into consideration when recommending the amount and length of this tax credit.

BENEFIT 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 generate a total of 276 jobs in the state by the year 2014. Total state government revenues through the year 2014, net of MEGA costs, would be increased by \$3,050,230 (current dollars) due to the presence of this facility.

BUSINESS CASE

According to their application, Waltonen's clients are headquartered in Washington DC and the manufacturing is in Wisconsin. Michigan would be a third location in the project, making communication and logistics more difficult. Per their contract, Waltonen must have a small office within close proximity to their client in the DC/Virginia region. The company considered locating all new hires for this contract in that region to further expand Waltonens defense customer base. Lastly, the company showed a cost gap between Michigan and Wisconsin in wages and state corporate tax that put Michigan at a disadvantage in addition to Wisconsin being home to Waltonen's customer.

OTHER STATE AND LOCAL ASSISTANCE

The City of Warren is supportive of this project and plan to consider approval of property tax abatements through P.A. 198 of 1974 for up to 12 years. Staff estimates the value of these local abatements at \$88,265 over their term. It is anticipated that these abatements will be approved at a future date.

QUALIFYING HIGH-TECHNOLOGY ACTIVITY

The company is a qualified high-technology business, whose primary business activity is Engineering or Laboratory Testing, as defined in the Act.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 75 percent high-technology employment tax credit for four years for up to 145 net new employees in excess of the company's established base of 125.