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Wichita officials fight to retain aviation companies

BY MOLLY MCMILLIN and Dan Voorhis
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Once again, city, county and state officials are grappling with how to keep aviation jobs in Wichita.

Last week, Hawker Beechcraft CEO Bill Boisture said the company is considering moving jobs to Mississippi or Louisiana. He said it also is looking outside the U.S. as it works to cut costs in a down economy that has hurt the market for business aircraft.

Local planemakers are constantly being wooed by other states seeking Wichita's high-paying aviation jobs and offering big incentives to get them.

Spirit AeroSystems, for example, chose the little town of Kinston, N.C., to take on Airbus work and eventually plans to employ 1,000 people there. The company received about \$125 million in incentives along with a building it leases for a nominal fee.

In Kansas, city and state leaders say they intend to respond.

Wichita City Manager Robert Layton said he and Mayor Carl Brewer expect to meet this week with Hawker Beechcraft officials to discuss what the city can do.

"We truly need to listen to them," Layton said. "Is there a gap? What does it consist of? And is there a public role in filling that gap?"

Gov. Mark Parkinson met last week with Boisture at the Farnborough International Airshow in England to see what the state might be able to do.

"The governor expressed (that) he hopes they'll continue to be part of Wichita," said Parkinson's spokeswoman, Amy Jordan Wooden. "But as they continue the process, if there are state programs they want to take advantage of, he hopes they'll reach out to us."

Parkinson also met with Bombardier Aerospace officials about jobs at its Learjet plant as the west Wichita facility expands to take on the new Learjet 85 business jet.

Details of a collaboration about "securing the future" of the Learjet site in Wichita will be unveiled Friday.

Hawker Beechcraft employs 7,000 people, including 6,000 in Wichita. Machinists union officials told members that the company could shrink its local hourly work force of 2,400 by 50 to 75 percent or more over the next two years.

Hawker Beechcraft officials say they must reshape the company to be profitable in a down market for business jets. They said they are exploring ways to address the company's overhead and other costs, particularly in the production and manufacturing areas.

Earlier this year, the company said it would close its long-standing Salina plant and move work to Mexico and outside suppliers as it consolidates facilities.

The market for the company's products decreased dramatically over the last 18 months, Boisture said.

"Our view is that this is not a momentary decrease, and we believe strongly it's necessary to adjust the cost structure of the company to be able to be profitable in a small market," he said.

Boisture said a series of decisions will be made by the end of the year. The possibilities include looking at sending work to outside suppliers, to Mexico and to other states.

"They're all possible," Boisture said.

The local response

Layton said he and Brewer had planned to visit the aircraft companies soon to check on their status, but last week's news from Hawker Beechcraft has sped that up.

Layton said the community will have to work together to come up with a package. The city's largest single incentive was \$5 million to bring in the Cessna Aircraft Columbus plant.

Sedgwick County Manager Bill Buchanan acknowledged that this is a tough time to have to produce incentives, but it can be done.

"A budget is never about money," he said. "It's about priorities."

The county has a \$75 million rainy-day reserve fund, although \$14 million of that may be used to plug a hole in the coming county budget.

"We're very concerned about their decision-making process, but I don't know of any words we can say to shift a business decision," Buchanan said. "If there's anything we can do, I would expect them to ask."

The county also contributed \$5 million for the Columbus plant, its largest incentive to date.

Hawker Beechcraft's consideration of moving work outside Wichita must serve as a wake-up call, said Machinists spokesman Bob Wood.

"State and local government are going to have to get involved," he said.

Effect on community

What impact losing jobs at Hawker Beechcraft would have on the community is speculation, because the company has not made any final decisions.

But Jeremy Hill, director of the Center for Economic Development and Business Research at Wichita State University, made an estimate based on 1,800 lost jobs — which is 75 percent of Hawker Beechcraft's 2,400 production jobs, a possibility listed in a letter from the Machinists union to its members.

If that were the case, the local economy would lose nearly \$90 million a year in payroll. When the ripple effect on other jobs in the community is included, that impact expands to nearly 8,000 jobs and \$200 million a year in lost payroll.

The effect would be heightened by the impact on local subcontracting businesses, and reduced when the laid-off workers found new jobs.

Being competitive

Wichita ranked sixth-lowest out of 62 U.S. cities in a new study by bizcosts.com that compares the cost by city of operating an aerospace manufacturing facility.

Columbus, Miss., one of the areas Hawker Beechcraft is considering, ranked as the city with the lowest costs.

The report analyzed labor, utilities, taxes, construction, shipping and other factors.

Wichita, from a cost standpoint, is "very competitive," said John Boyd, a principal with the Boyd Co., which did the study.

Kansas has a pro-business governor and climate. The state's corporate income tax is low and there's cheap, affordable land, he said.

Still, Boyd said he thinks there will be a "tremendous amount of projects Wichita would be competing for migrating to other markets" because of the labor climate.

Labor will cost less in places like Mississippi and Louisiana.

Clients are also concerned that the Machinists' new 10-year contract with Spirit AeroSystems has "upped the ante" because of the increase in pension benefits, he said.

About 40 percent of a business' labor costs are services such as pensions, health care and workers' compensation.

"This is a time when manufacturers want to reduce those costs," Boyd said.

But Kansas competes well in many areas and has a long lists of strengths, said Vicki Pratt Gerbino, president of the Greater Wichita Economic Development Coalition, and Kansas Department of Commerce spokesman Joe Monaco.

It has a highly skilled workforce, is centrally located, is a right-to-work state and has a friendly business climate,

they say. Its cluster of aviation suppliers, the National Center for Aviation Training and the National Institute for Aviation Research in Wichita are advantages.

Boyd said it's also difficult for a company to move large operations, and businesses sometimes threaten to move as a strategy in negotiations with unions or economic development officials.

"A big part of this business is posturing," Boyd said.

Calculating costs

Large companies periodically re-evaluate how well their location helps them compete.

They run a complex calculation: the cost of labor, utilities, transportation, taxes and other costs at their present location vs. those costs, plus the cost of moving, minus the cash and incentives of some other place.

This is especially important in mature industries such as corporate jet-making that are growing slowly and face heightened competition — forcing them to focus on cutting costs to maintain profits, said David Brandon, senior vice president of Site Selection Group, a Dallas site consultant.

Hawker Beechcraft, Brandon said, faces new Brazilian and Japanese competitors and the prospect of Chinese competitors in the future.

Brandon's firm was hired last year to make a strategic analysis of Wichita for the Greater Wichita Economic Development Coalition.

In his time here, he said, he heard many Wichita executives complain about the high cost of labor and operations. Union wage rates and work rules drove many of the complaints, he said.

If companies aren't making money because of their cost structure, they must make changes, Gerbino said. They have a fiscal responsibility to make money for their stakeholders, she said.

Governments can only do so much because they only have power over some business costs, Brandon said.

"I don't know how far you can move the needle, frankly," he said.

But it's not impossible. When two choices are close, governments can change the calculation with enough money. States such as Alabama, Tennessee and North Carolina do it all the time.

Kansas can, too. In 2008, the state, city of Wichita and Sedgwick County won the planned Columbus plant by promising Cessna nearly \$40 million in bonds and incentives. The project was later canceled because of the recession and the money returned.

But if luring Hawker Beechcraft, or any aviation work, turns into a bidding war, Kansas is in trouble.

"We don't have war chests or 'seal-the-deal funds' where you can literally throw cash at companies to keep them from leaving," Monaco said. "We can't just show up with a pot of money."

The state does offer incentives for companies wanting to move or expand in Kansas, add jobs, make new capital investments or retrain existing workers, Monaco said.

Mexico

Other states aren't the only places looking for good aviation jobs. Other countries are, too.

The aerospace industry in Mexico has grown from 100 manufacturers in 2004 to more than 300 last year.

Hawker Beechcraft, Cessna, Bombardier Aerospace, Honeywell, Zodiac, Safran, Goodrich, Triumph, GE, Textron International Mexico and Pratt & Whitney are some of the companies with operations there.

"It's very important that people stop considering these companies to be local companies," said Cessna spokesman Doug Oliver about Wichita's planemakers. "We are global companies involved in global marketing."

To compete globally, the companies have to have a global presence, Oliver said.

At the same time, competition and cost pressures are intense.

"Sales are way down, so the competition for the remaining sales is just going to be phenomenal," Oliver said. "So everybody is looking at what can we do to maintain quality and reduce cost."

Cessna employs 500 people in Mexico, although most of the employees are contract workers employed by staffing companies.

According to Intermex Industrial Parks, a company that helps businesses locating to Mexico, Cessna celebrated the opening of its fourth facility in Chihuahua on June 1. Cessna's plant will expand to 472,000 square feet for production of sheet metal assemblies and subassemblies, Intermex said.

Last month, Bell Helicopter opened a 122,000-square-foot facility in Chihuahua to build the cabin, nose and tail sections of the Bell 429 helicopter.

One advantage of Mexico is the tax and labor rates, said Joseph Lauderdale, founder of Invest in America, a firm that helps companies that come to Mexico. The labor rate is \$2.65 an hour, including benefits, he said.

Hourly workers at Hawker Beechcraft, earn an average of more than \$50,000 a year, more than \$24 an hour.

Mexico has many hidden costs, though, said Boyd, with the Boyd Co.

Many industrious Mexican workers come to the U.S. for work, Boyd said, and transportation of products is expensive.

The country's drug violence also makes security an issue, he said.

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