

# Washington Manufacturing Alert

The Newsletter  
Of The State's  
Most Important Industry

Vol. 10, Issue 1  
Jan. 1, 2018

**2017 in Review: Page 4**

**Newsire:** B.C. company buys Arlington lumber mill; L&I fines Pasco packing house for safety violations; Foss Maritime to build tugs at Oregon yard; Bothell company lands NASA contract to develop in-space fabrication prototype; plus other news items. **Page 6**

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Jan. 15

## Outlook 2018

### Taxes, Trade Policy, Boeing Will Write The Headlines

**BY BILL VIRGIN**  
Editor/Publisher

For a change, the general condition of the global, national and regional economies isn't at the top of the list of worries for Washington's manufacturing community heading into the new year.

Not that there aren't significant economic issues and trends that could develop into real problems — higher interest rates, higher energy costs, how much longer the recovery and the stock market bull have to run.

But economic forecasters and those in industry are generally upbeat about economic prospects. The state's Economic and Revenue Forecast Council is predicting U.S. GDP growth of 2.5 percent next year, hardly robust but still a continuation of the recovery. The council warned there were more downside risks than upside surprises; the forecast was prepared before enactment of the Trump business-tax-cuts.

The regional purchasing managers' index, compiled by the Western Washington chapter of the Institute for Supply Management, bounced from positive to negative and back again during 2017. The trend late in the year was toward the upside, with the November 90-day outlook (released in early December) at 68.8, solidly above the score of 50 that is the dividing line between economic expansion and contraction.

For manufacturers generally, other issues are elbowing their way to the forefront, including trade disputes involving a host of Washington industries and products, tax

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### Legislature 2018: With Political Shift In Olympia, This Year Could Be Expensive

The one prize that many manufacturers got out of the Legislature in the 2017, a reduction in the business and occupation tax to match what aerospace companies get, was taken away by gubernatorial veto after the session ended.

In the 2018, manufacturers may be lucky to get even that little.

Thanks to a special-election outcome in one senatorial district on the Eastside, Democrats control not only the governor's office and the House but now the Senate (25-24), which the Republicans had held.

The 60-day session that commences Jan. 8 is a short one, but there is a supplemental budget to be dealt with, and Gov. Jay Inslee has already announced revival of his carbon tax proposal.

Details weren't included in his announcement, although the governor said he will offer a carbon-tax bill in January. When the proposal was first offered in 2015, it called for major emitters of specified greenhouse gas to purchase "allowances" based on their share of the state total. Over

time those companies would be expected to cut their emissions or pay for increasingly expensive allowances. Inslee wants the additional revenue to go to K-12 education.

Senate Democrats have revealed a few bills they'll be pushing, none directly related to business.

Business advocates, meanwhile are still hoping for some assistance. The city of Spokane Valley's council set as one of its legislative priorities relief from "the regressive state business & occupation tax, with the current Labor & Industries program close behind, with both needing significant reform before they do irreparable damage to commerce in Washington."

Two overarching considerations will be in play during the session. One is that this is an election year, with all of the House and half the Senate on the ballot.

The other is the potential for another round of interstate competition for the next major Boeing commercial jet program (see story, page 3). Some legislators have been unhappy about the loss of Boeing jobs in the state even with the passage of incentives for the aerospace industry.

## Outlook 2018: Boeing, Trade Disputes And Taxes Will Shape The Year

*(Continued from page 1)*

policy changes at the national and state level (see story on page 1) — and what's ahead for Boeing, which, despite its job cuts, remains the dominant economic driver.

Manufacturing employment in the state, as of November 2017, was at 283,800, according to preliminary figures (not seasonally adjusted) from the Employment Security Department. That's down 1,500 jobs from the same month of 2016, with all of that — and more — due to a 6,000-job drop in the aerospace product and parts category.

Boeing itself reported employment in Washington of 66,242 as of late November, down from 72,593 in November 2016 and more than 79,000 in November 2015 (the company, by the way, says it will cease publishing monthly employment totals by state in 2018, providing annual figures only).

That reflects the increased shifting of work to other locations and to suppliers and vendors, as well as production rate decreases on some programs. Some counterbalance is provided by the Renton-based 737 program, with another production rate increase scheduled for 2018, from 47 planes a month to 52.

2018 is shaping up to be a pivotal year for Boeing. It's gearing up production of the 777X at Everett. It's discussing bringing more work in-house. It's looking at a successor to the 757, termed the "middle of market" aircraft.

What does that mean for the base of aerospace subcontractors and suppliers? "We're extremely excited with the news we're hearing in our sector, and all the indicators are looking for a good year," said Debbie Lee, chief executive of Tacoma-based Tool Gauge, a supplier of metal and plastic parts to the aerospace industry. "We've been doing a lot of work on the 777X. We're really busy."

So busy, in fact, that Tool Gauge has a major expansion project in the planning stages, for as much as 100,000 square feet of additional space, allowing for increased production capacity for both metal and plastic

parts. "It's a matter of deciding how fast we want to move and how fast we want to grow." Groundbreaking could come in the second quarter of 2018, with completion in the first half of 2019, she added.

For Tool Gauge, a 130-employee company, and other manufacturers, the big challenge will continue to be workforce. "Recruiting qualified talent has really been a tough go over the last few years, and it's getting even harder" she said. Tool Gauge set up a program to pay current employees a finders fee for bringing in new employees.

One other answer to the vexing issue of finding skilled workers: automation. For companies in the aerospace industry, that can also be an answer to continuing pressure from Boeing to cut costs. "We're pretty quick to jump into a new technology if we think we can rationalize the cost savings and remain competitive," said Jim Lee, Tool Gauge's sales and marketing manager. "We spend a lot on capital equipment that can produce parts with more automation." An added incentive to increasing efficiency is that contracts lasting five to seven years often have price reductions built into them.

Among other issues and trends for Washington manufacturing in 2018:

- Merger and acquisitions in Pacific Northwest manufacturing continued to be strong in 2017, according to Brian Murphy, president and managing director of Seattle-based Meridian Capital and group leader of the aerospace and precision-machining practice. Although activity in the aerospace sector trailed off a bit, the consolidation wave continues to drive deals, and there's considerable interest in other sectors including food and beverage, medical devices and building products.

Murphy doesn't see the trend subsiding. "There's still a significant amount of investment capital available in the market, both from public companies and private equity firms," he said. "Although interest rates are creeping up,

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## Outlook 2018: More M&A Activity, More Trade Disputes

*(Continued from page 2)*

the availability of debt is still very strong. There's a lot of equity and a lot of debt chasing a finite number of investment opportunities."

A string of robust years in manufacturing M&A has trimmed the pool of available quality candidates for acquisition; "at the same time, the competition for an A or B quality candidate is more robust than ever just because of continued strong demand given the capital markets." But momentum will be sustained by demographics, he added. "Particularly in the manufacturing space, a lot of the shareholders are reaching retirement age. The owners or founders of family owned businesses, where the current generation is in the early to late 60s or even older." They're facing decisions about whether to wait through the next business cycle or capitalize on the current cycle.

Murphy said the new tax bill might not have a direct impact in terms of the capital gains from transactions, but it could influence decisions about doing deals, since the gap between tax rates on income and capital gains has been narrowed. "The value of distributions in the eyes of sellers or business owners might be worth more, which might mean that they might be looking for higher valuations in order to incentivize them to exit." Would-be buyers might pay more, he added, since the cash flows are worth more.

■ The new federal tax bill's most notable feature for business is a 21-percent corporate rate beginning in the 2018 tax year, but there's plenty more, including providing

a 20-percent deduction from taxable income for certain pass-through entities, elimination of the corporate alternative minimum tax and full expensing of assets purchased after Sept. 27, 2017.

On the state level, however, businesses are facing higher operating costs. The state minimum wage goes from \$11 in 2017 to \$11.50 as of Jan. 1, 2018; some municipalities such as Seattle already have higher rates.

Almost all employers are also subject to the new paid-sick-leave law, under which employees earn at least one hour of leave for every 40 hours worked.

The state did report that for the majority of companies, unemployment compensation insurance rates will stay the same or decline in 2018.

■ Airplanes, softwood lumber, paper, aluminum and solar-energy components and materials, all made in Washington, figured in trade disputes in 2017. Most of those cases can be expected to drag into 2018 through appeals and negotiations.

■ The much-discussed industrial Internet of Things will increasingly be a part of operating reality for manufacturers, along with issues of the technology's cost and cybersecurity. "The signals we're getting from Boeing are that we're going to be giving them more data over the internet instead of just sending a form over email," said Tool Gauge's Jim Lee. That data will include real-time verification that the parts Boeing is receiving match up with geometry specifications,

## State, Local Groups Plan Pitch To Land Next Boeing Plane

Boeing hasn't publicly announced decisions about its next commercial-jet programs, but government and economic-development officials across the state are already gearing up efforts to sway Boeing to build that next plane, whatever it is, in Washington.

The governor has named a Choose Washington New Market Aircraft Council to make the argument that "Washington state's aerospace workforce offers the quickest-to-profitability and lowest-risk location" for Boeing's new aircraft.

Named to the council so far are the county executives for King, Pierce and Snohomish, and the heads of Boeing's two main unions (the Machinists and SPEEA), the state Department of Commerce and the Aerospace Futures Alliance, as well as a representative of Greater Spokane Inc. Others are to be named later.

Snohomish County earlier launched its own effort with the formation of an aerospace task force, including some of the same groups as the state council as well as local colleges, workforce, economic development groups and

cities. Its first meeting is planned for January.

"We can't afford to wait," Snohomish County Executive Dave Somers said in a release. "We, as the leaders of Snohomish County, will use this time to make sure all is in place to make the decision where to build the NMA as easy as possible for Boeing."

The Spokane region has its eye on the project as well, with the formation of a task force organized by Greater Spokane and Spokane International Airport, along with its affiliate West Plains/Airport Area Public Development. Included in the group are schools, colleges, labor and electric utilities.

The Spokane group indicated it will emphasize workforce availability, shorter commutes, more affordable housing, and highway and rail improvements for an aerospace manufacturing site of more than 1,000 acres with runway access. It also cites a base of aerospace suppliers stretching from central Washington to Montana.

The group says it wants to land design, production, and final assembly of the plane.

## 2017 In Review: What Made News In Washington Manufacturing

### Acquisitions/Sales/Deals

- Buyken Metal Products, Kent, sold to C&J Industries.
- Nova-Tech Engineering, Lynnwood, sold by Teal Sales Inc. to Advanced Integration Technology, Plano, Texas.
- Decagon Devices Inc., Pullman, merged with UMS AG, Munich; renamed Meter Group Inc.
- Helac Corp., Enumclaw, acquired by Parker Hannifin Corp., Cleveland.
- Gaco Western, Tukwila, acquired by Firestone Building Products Co., Indianapolis.
- Nippon Paper Industries Group Port Angeles mill sold to McKinley Paper Co., Prewitt, N.M.
- Magnetic & Penetrant Services Co., Seattle, sold to Trive Capital.
- Custom Control Concepts, Kent, acquired by Astronics Corp.
- KIC LLC, Vancouver, acquired by Accuride Corp., Evansville, Ind.
- Apollo Video Technology, Bothell, acquired by Luminator Technology.
- Bestworth-Rommel, Arlington, acquired by OneAccord Capital, Kirkland.
- Pacific Coast Feather Co., Seattle, acquired by Hollander Sleep Products, Boca Raton, Fla.
- Eddyline Kayaks, Burlington, acquired by its management team.
- American Wheel Specialist, Kennewick, acquired Armor Performance Coating, Richland.
- Knight Boat Docks, Deer Park, acquired S-K Marine, Cusick.
- Woodinville Whiskey, acquired by Moët Hennessy.
- FarWest Fabricators, Moxee, acquired by OneAccord Capital.
- Telect Inc., Liberty Lake, acquired by Amphenol Corp., Wallingford, Conn.
- KML, Tacoma, acquired by Wilsonart Engineered Surfaces, Austin, Texas.
- RMG Holding Co., Clarkston, bought Armstrong Marine Inc., Port Angeles.
- Access Laser Co., Everett, sale of 85 percent share to Trumpf.
- Potlatch Corp., Spokane, planned a plans to acquire acquisition of Deltic Timberland Corp.

### New Investments/Projects/Facilities

- Fibro Corp., Wenatchee, new production plant in Tacoma.
- Thermoforming Systems LLC, Union Gap, added 20,000 square feet to its existing 50,000-square-foot facility,
- Vigor Industrial, purchase of 640-foot-long drydock from South Korea for Harbor Island shipyard.

- Kyocera International Inc., Vancouver, opened \$10 million expansion.
- Labels West Inc., Woodinville, completion of \$3.2 million expansion project.
- Blue Origin, Kent, planned rocket-engine plant in Huntsville, Ala.
- James Hardie Building Products Inc. Tacoma, 400,000-square-foot building.
- TopCub Aircraft LLC, manufacturing facility at Arlington Municipal Airport.
- Seattle Genetics Inc., acquisition of Bristol-Myers Squibb's pharmaceutical manufacturing facility, Bothell.
- Areva, Richland, construction of a \$12 million, 11,000-square-foot scrap uranium recovery facility.
- Packaging Corp. of America, Wallula, \$150 million conversion of paper machine.
- Katerra Inc., 250,000-square-foot cross-laminated timber production plant in Spokane.
- Diamond Foundry Inc., San Francisco, production plant in Wenatchee.
- Louws Truss, Burlington, new mill at Port of Chelan County's Cashmere Mill site.
- HiTest Sand, Edmonton, \$325 million silicon smelter, Newport.

### Closings/Layoffs

- Hearth & Home, closed Colville plant.
- Craft Brew Alliance, closed Woodinville brewery.
- Madera Components, Monroe, closed.
- Twin City Foods, moving quick-frozen vegetable repack operations from Stanwood to Pasco.
- Geek Chic, Everett, closed.
- PSF Industries, Seattle and Puyallup, closed.
- North Pacific Paper Co., Longview, idled papermaking machine.
- Georgia-Pacific, Camas, ending some production operations, laying off 280 employees.

*Compiled from WMA reports in 2017*

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## Newsire: The Latest In Washington Manufacturing

**ARLINGTON:** Western Forest Products Inc., based in Vancouver, B.C., said it plans to acquire Hampton Lumber Mills-Washington Inc.'s Arlington lumber mill for \$9 million. The deal is scheduled to close in January 2018. Don Demens, president and CEO of Western, said in a release that the Arlington mill "strengthens our global competitiveness by positioning Western to mitigate the damaging effects of duties on our products destined for the U.S. market."

**PASCO:** The Department of Labor & Industries has fined Freeze-Pak, a division of Oregon Potato Co., \$92,400 for safety violations found during an investigation of an industrial accident in which a worker's finger was partially amputated in moving machinery. L&I said it was the third time in three years that workers at the same company have suffered amputation injuries on the job. The department said the worker sustained a broken wrist and partially amputated finger when his hand got caught in a conveyor while he was cleaning under it. It also said it has cited the company before for violations of rules on tagout/lockout procedures to prevent machines from operating while employees are working on them. Freeze Pak has appealed the citation.

**SEATTLE:** Foss Maritime has signed a contract with Netherlands-based Damen Shipyards to build tugs, based on Damen's design, for the tug assist and escort market. The first four of a series of at least 10 tugs will be built at Foss' Rainier, Ore., shipyard. Delivery is scheduled for 2019. Tugs will be added to Foss' fleet and will be available for purchase by other operators.

**BOTHELL:** Tethers Unlimited Inc. is one of three companies selected by NASA to develop prototypes for space-based, on-demand fabrication. The companies will have 18 months to deliver the prototype; NASA will then select partners to further develop the technology.

**KENNEWICK:** Pronghorn LLC has purchased nearly 35 acres from the Port of Kennewick in the Twin Tracks Industrial Park, and plans to build a concrete production plant on the land next spring. The port said the project will generate about \$4 million in annual revenue and employ 30. Pronghorn, based in North Dakota, is parent to JMAC Resources, which has a Wenatchee office.

**KENT:** The Aerospace Joint Apprenticeship Committee has opened the Advanced Manufacturing Prep Training Center, a 3,000-square-foot facility with programs including orientation and screening for job seekers, pre-apprenticeship for advanced manufacturing, entry-level

and advanced apprenticeships for incumbent workers, short-term training for local employers and master mentorship courses.

**BOTHELL:** CMC ICOS Biologics Inc. will develop and manufacture three treatments for cancer for Harpoon Therapeutics, based in South San Francisco.

**VANCOUVER:** Northwest Pipe Co. has sold its remaining interest in a Kansas manufacturing operation producing pipe for the energy industry to complete a transition to focus on the water and wastewater infrastructure markets.

**BELLEVUE:** Green Grass Foods, which has developed plant-based non-dairy coffee creamers, has received Series B growth equity financing from CircleUp Network. Nutpods, established in 2013 by Madeline Haydon, sells its products through retailers and e-commerce sites, including Amazon.

### PERSONNEL FILE

Truck manufacturer **Paccar Inc.** has named Harrie Schippers president and chief financial officer. Schippers most recently was executive vice president and chief financial officer, and before that was president of DAF Trucks in Eindhoven, the Netherlands. He succeeds Robert J. Christensen.

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## Manufacturing Calendar

**Jan. 8-10** Northwest Food & Beverage World, Oregon Convention Center, Portland; [nwfpa.org](http://nwfpa.org).

**Jan. 18** Supply Chain Opportunities Conference, Pacific Northwest Defense Coalition, held at Center of Excellence for Global Trade & Supply Chain Management, Des Moines; [pndc.us](http://pndc.us).

**Feb. 6-8** Spokane Ag Expo and Pacific Northwest Farm Forum, Spokane Expo Center; [agshow.org](http://agshow.org).

**Feb. 12-15** Pacific Northwest Aerospace Alliance annual conference, Lynnwood Convention Center; [pnaa.net](http://pnaa.net).

**Feb. 19-20** Amcon contract manufacturers show, Meydenbauer Center, Bellevue; [amconshows.com](http://amconshows.com).

**March 26-28** Aerospace & Defense Suppliers Summit, Washington State Convention Center, Seattle; [seattle.bciaerospace.com](http://seattle.bciaerospace.com).