

**The Economic Effects on Michigan of the
American Greetings Corporation Facility Expansion Decision**

**George A. Fulton
Peter Nicolas
Donald R. Grimes**

**University of Michigan
January 25, 2000**

Abstract

American Greetings Corporation is considering expanding its newly acquired Contempo Colours in Kalamazoo facility to manufacture party goods, including napkins, paper plates, and paper cups. The facility would employ 200 people by 2002. We estimate that by 2010, this expansion will have generated a total of 344 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would increase by \$10,699,000 (2000 dollars) due to the expansion of American Greetings Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of American Greetings Corporation expanding its newly-acquired Contempo Colours in Kalamazoo facility to manufacture party goods, including napkins, paper plates, and paper cups (SIC 2771). Investment activity would take place between 2000 and 2002, with an investment of \$18.825 million. The facility would employ 200 people and be at full production by 2002.

The estimates of the benefits include the total number of jobs created in Michigan (by major industry, including spin-off jobs), and the associated personal income and state government revenue. Benefits net of the MEGA incentive package, from 2000 to 2010, are shown in the attached table. The MEGA incentive package includes relief from 50 percent of the single business tax for the period 2001 to 2010, and a tax credit to the company for the same period equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility as a result of the project.

The total employment effects, reported in the first line of the table, include the direct jobs created at the facility itself plus spin-off jobs. The spin-off jobs are generated from two sources, increased purchases from Michigan suppliers and spending by people who receive income due to the increased economic activity. The construction activity is expected to generate a total of 121 jobs in 2000 and 15 jobs in 2002; almost all of these jobs are temporary. In 2003, the first year of full operations without investment activity, an additional 373 jobs are generated in the state. We estimate that by 2010, this expansion will have generated a total of 344 additional jobs in the state. The total number of jobs created (direct plus spin-off) for every direct job introduced constitutes the "employment multiplier." The employment multiplier for the expansion averages 1.75 over the period 2003 to 2010. Sectoral detail on the employment gains is also shown in the table.

Personal income is shown in the next section of the table. Personal income is defined as the income of Michigan residents from all sources, after deduction of contributions to social

insurance programs but before deduction of income tax and other personal taxes. As shown in the table, if American Greetings Corporation were to expand in Michigan under the incentive program, state personal income in 2003 would be higher by \$19.3 million (in current dollars) than it would be without the facility, and in 2010 it would be \$24.6 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$15.7 million in 2003 and \$16.7 million in 2010.

The gain in economic activity results in higher state government revenues. We estimate that in 2003, the first year of full operations without investment activity, the facility would generate \$1,544,000 in additional gross state government revenue, and that the MEGA package would provide a \$321,000 incentive to American Greetings Corporation. Thus, the American Greetings Corporation facility expansion would increase state government revenues in 2003 by \$1,223,000, net of MEGA incentive costs.

Over the period 2000 to 2010, gross state government revenue is projected to increase by \$17,144,000 (in current dollars) due to the expansion of American Greetings Corporation. The MEGA incentive package for American Greetings Corporation is forecast to cost \$3,191,000 over the period, resulting in a net increase in state government revenue of \$13,953,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2010 would be \$10,699,000 in 2000 dollars. These calculations do not include any revenue losses due to the property tax abatement or the investment tax credit. If the costs of the abatement and the tax credit were included, the net revenue gain to state government would be slightly less.

None of these estimates include the nonmeasurable effects that would produce additional economic and fiscal benefits for Michigan, such as the intangible advantages of influencing other location and expansion decisions.

**Economic and Fiscal Effects on Michigan of the American Greetings Corporation Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2005	2010	Total 2000-2010
Total Employment	232	251	406	373	353	344	—
Manufacturing	71	139	216	208	202	200	—
Nonmanufacturing	161	112	190	165	151	144	—
Retail Trade	30	30	47	42	36	32	—
Services	41	43	70	59	51	48	—
Other	90	39	73	64	64	64	—
In current dollars (thousands):							
Personal income	9,500	11,300	19,100	19,300	20,700	24,600	214,300
Gross state revenue	760	904	1,528	1,544	1,656	1,968	17,144
MEGA cost	0	235	322	321	323	341	3,191
State revenue net of MEGA cost*	760	669	1,206	1,223	1,333	1,627	13,953
Adjusted for inflation (thousands of 2000 dollars):							
Personal income	9,500	10,350	16,348	15,658	15,612	16,720	164,084
Gross state revenue	760	828	1,308	1,253	1,249	1,338	13,127
MEGA cost	0	215	276	260	244	232	2,428
State revenue net of MEGA cost*	760	613	1,032	993	1,005	1,106	10,699

*These estimates do not include any state government revenue losses due to the Investment Tax Credit or the property tax abatement.