

**The Economic Effects on Michigan of the
Behr Industries Corporation Facility Expansion Decision**

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Abstract

Behr Industries Corporation, a producer of real wood interior trim components for automobile original equipment manufacturers, is considering expanding its manufacturing capability at its existing facility in Alpine Township, Michigan. The expanded facility would employ an additional 341 people by 2002. We estimate that by 2007, this expansion will have generated a total of 528 jobs in the state. Total state government revenues through 2007, net of MEGA costs and adjusted for inflation, would increase by \$9,688,000 (2000 dollars) due to the expansion of the Behr Industries Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Behr Industries Corporation, a producer of real wood interior trim components for automobile original equipment manufacturers, expanding its manufacturing capability at its existing facility in Alpine Township, Michigan (SIC 3714). Investment activity would take place in 2000, with an investment of \$3.04 million. The facility would employ an additional 341 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 2007, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2000 to 2006, and a tax credit to the company 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 for the period 2000 to 2006 and equal to 75 percent for the year 2007.

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 14 jobs in 2000; almost all of these jobs are temporary. In 2002, the first year of full operations, an additional 534 jobs are generated in the state. We estimate that by 2007, this expansion will have generated a total of 528 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 1.55 over the period 2002 to 2007. 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 Behr Industries Corporation were to expand in Michigan under the incentive program, state personal income in 2002 would be higher by \$23.4 million (in current dollars) than it would be without the facility, and in 2007 it would be \$31.5 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$19.5 million in 2002 and \$23.2 million in 2007.

The gain in economic activity results in higher state government revenues. We estimate that in 2002, the first year of full operations without investment activity, the facility would generate \$1,872,000 in additional gross state government revenue, and that the MEGA package would provide a \$426,000 incentive to Behr Industries Corporation. Thus, the Behr Industries Corporation facility expansion would increase state government revenues in 2002 by \$1,446,000, net of MEGA incentive costs.

Over the period 2000 to 2007, gross state government revenue is projected to increase by \$15,200,000 (in current dollars) due to the expansion of Behr Industries Corporation. The MEGA incentive package for Behr Industries Corporation is forecast to cost \$2,915,000 over the period, resulting in a net increase in state government revenue of \$12,285,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2007 would be \$9,688,000 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 Behr Industries Corporation Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2005	2007	Total 2000-2007
Total Employment	182	422	534	523	528	—
Manufacturing	92	255	349	341	341	—
Nonmanufacturing	90	167	185	182	187	—
Retail Trade	22	43	48	41	40	—
Services	34	57	55	46	46	—
Other	34	67	82	95	101	—
In current dollars (thousands):						
Personal income	7,000	17,000	23,400	28,500	31,500	190,000
Gross state revenue	560	1,360	1,872	2,280	2,520	15,200
MEGA cost	98	303	426	444	326	2,915
State revenue net of MEGA cost*	462	1,057	1,446	1,836	2,194	12,285
Adjusted for inflation (thousands of 2000 dollars):						
Personal income	7,000	14,969	19,483	21,628	23,241	150,026
Gross state revenue	560	1,197	1,559	1,730	1,859	12,002
MEGA cost	98	266	355	337	240	2,314
State revenue net of MEGA cost*	462	931	1,204	1,393	1,619	9,688

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