The Economic Effects on Michigan

of the Brian and Associates, Inc. Facility Expansion Decision

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Abstract

Brian and Associates, Inc. is considering consolidating and expanding its five affiliated companies located in the Detroit metropolitan area both to meet the needs of existing customers and to attract new customers. The facility would employ 563 additional people by 2001. We estimate that by 2016, this expansion will have generated a total of 847 jobs in the state. Total state government revenues through 2016, net of MEGA costs and adjusted for inflation, would be increased by $32,208,000 (1997 dollars) due to the expansion of Brian and Associates, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Brian and Associates, Inc. consolidating and expanding its five affiliated companies located in the Detroit metropolitan area both to meet the needs of existing customers and to attract new customers (SIC 2754). Investment activity would take place in 1998, with an investment of $20.528 million, and operations would begin in April 1999. The facility would employ 563 additional people by 2001.

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 1998 to 2016, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2000 to 2016 equal to 4.18 percent of the payroll (gross wages) of employees hired at the facility as a result of the project for the period 2000 to 2011, and equal to 1.848 percent for the period 2012 to 2016. The payroll tax credit represents 95 percent of the maximum employment credit available to a company for the period 2000 to 2011, and represents 42 percent of the maximum credit for the period 2012 to 2016.

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 expansion of the facility is expected to generate a total of 291 jobs in 1998; almost all of these jobs are temporary. In 2001, the first year of full operations, an additional 879 jobs are generated in the state. We estimate that by 2016 this facility expansion will have generated a total of 847 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 1.4 over the period 2001-2016. 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 Brian and Associates, Inc. were to expand in Michigan under the incentive program, state personal income in 2001 would be higher by $38.2 million (in current dollars) than it would be without the expansion, and in 2016 it would be $71.3 million higher. Adjusted for inflation, these numbers in 1997 dollars would be $27.6 million in 2001 and $35 million in 2016.

The gain in economic activity results in higher state government revenues. We estimate that in 2001, the first year of full operations without construction activity, the facility expansion would generate $3,056,000 in additional gross state government revenue, and that the MEGA package would provide a $730,000 incentive to Brian and Associates, Inc. Thus, the Brian and Associates, Inc. facility expansion would generate an additional $2,326,000 in revenue to state government in 2001, net of MEGA incentive costs.

Over the period 1998-2016, gross state government revenue is projected to increase by $71,320,000 (in current dollars) due to the expansion of Brian and Associates, Inc. The MEGA incentive package for Brian and Associates, Inc. is forecast to cost $12,896,000 over the period, resulting in a net increase in state government revenue of $58,424,000. Adjusted for inflation, the total net increase in state government revenue from 1998 to 2016 would be $32,208,000 in 1997 dollars. These calculations do not include any revenue losses due to the property tax abatement. If the cost of the abatement 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 Brian and Associates, Inc. Facility Expansion
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	1998	1999	2000	2001	2005	2010	2015	2016	Total 1998-2016
Total Employment	291	328	582	879	793	785	837	847	—
Manufacturing	14	126	339	578	563	563	563	563	—
Nonmanufacturing	277	202	243	301	230	222	274	284	—
Retail Trade	34	50	69	89	66	59	63	65	—
Services	49	81	93	104	68	65	88	93	—
Other	194	71	81	108	96	98	123	126	—
In current dollars (thousands):									
Personal income	11,300	13,300	24,200	38,200	45,100	53,900	68,000	71,300	891,500
Gross state revenue	904	1,064	1,936	3,056	3,608	4,312	5,440	5,704	71,320
MEGA cost	0	0	706	730	839	1,001	531	552	12,896
State revenue net of MEGA cost*	904	1,064	1,230	2,326	2,769	3,311	4,909	5,152	58,424
Adjusted for inflation (thousands of 1997 dollars):									
Personal income	9,101	9,912	18,031	27,607	28,271	30,516	34,465	35,015	523,820
Gross state revenue	728	793	1,443	2,209	2,262	2,442	2,758	2,801	41,906
MEGA cost	0	0	657	660	674	695	318	320	9,698
State revenue net of MEGA cost*	728	793	786	1,549	1,588	1,747	2,440	2,481	32,208

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