

**The Economic Effects on Michigan of the  
CTS Management, L.L.C. Facility Location Decision**

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### Abstract

*CTS Management, L.L.C., a diagnostic testing laboratory specializing in drug testing, is considering building a new 40,000 square-foot laboratory building in Kalamazoo, Michigan. The facility would employ an additional 191 people by 2004. We estimate that by 2012, this location will have generated a total of 205 jobs in the state. Total state government revenues through 2012, net of MEGA costs and adjusted for inflation, would increase by \$6,015,000 (2002 dollars) due to the location of CTS Management, L.L.C.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of CTS Management, L.L.C., a diagnostic testing laboratory specializing in drug testing, building a new 40,000 square-foot laboratory building in Kalamazoo, Michigan (SIC 8071). Investment activity would take place in 2002, with an investment of \$8.26 million. The facility would employ an additional 191 people by 2004.

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 2002 to 2012, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2003 to 2007 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, and equal to 50 percent for the period 2008 to 2012.

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 116 jobs in 2002; almost all of these jobs are temporary. In 2004, the first year of full operations, an additional 261 jobs are generated in the state. We estimate that by 2012, this location will have generated a total of 205 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 location averages 1.2 over the period 2004 to 2012. 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 CTS Management, L.L.C. were to locate in Michigan under the incentive program,

state personal income in 2004 would be higher by \$12.1 million (in current dollars) than it would be without the facility, and in 2012 it would be \$15.3 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$8.7 million in 2004 and \$8.8 million in 2012.

The gain in economic activity results in higher state government revenues. We estimate that in 2004, the first year of full operations, the facility would generate \$968,000 in additional gross state government revenue, and that the MEGA package would provide a \$208,000 incentive to CTS Management, L.L.C. Thus, the CTS Management, L.L.C. facility location would increase state government revenues in 2004 by \$760,000, net of MEGA incentive costs.

Over the period 2002 to 2012, gross state government revenue is projected to increase by \$11,160,000 (in current dollars) due to the location of CTS Management, L.L.C. The MEGA incentive package for CTS Management, L.L.C. is forecast to cost \$1,752,000 over the period, resulting in a net increase in state government revenue of \$9,408,000. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2012 would be \$6,015,000 in 2002 dollars. These calculations do not include any revenue losses due to the Investment Tax Credit. If the costs of 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 CTS Management, L.L.C. Facility Location  
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2002	2003	2004	2005	2010	2012	Total 2002-2012
Total Employment	116	265	261	246	206	205	—
Manufacturing	3	1	0	0	0	0	—
Nonmanufacturing	113	264	261	246	206	205	—
Retail Trade	13	22	21	18	11	11	—
Services	19	214	209	200	191	191	—
Other	81	28	31	28	4	3	—
In current dollars (thousands):							
Personal income	5,100	10,600	12,100	12,800	14,400	15,300	139,500
Gross state revenue	408	848	968	1,024	1,152	1,224	11,160
MEGA cost	0	200	208	217	133	144	1,752
State revenue net of MEGA cost*	408	648	760	807	1,019	1,080	9,408
Adjusted for inflation (thousands of 2002 dollars):							
Personal income	5,100	8,422	8,671	8,370	8,546	8,792	89,223
Gross state revenue	408	674	694	670	684	704	7,138
MEGA cost	0	159	149	142	79	83	1,123
State revenue net of MEGA cost*	408	515	545	528	605	621	6,015

\*These estimates do not include any state government revenue losses due to the Investment Tax Credit.