

**The Economic Effects on Michigan
of the Cable Constructors, Inc. Facility Expansion Decision**

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Abstract

Cable Constructors, Inc. is considering expanding its present facility in Iron Mountain, Michigan to increase its engineering capacity to meet future demand for cable systems. The new facility would employ 125 people by 2002. We estimate that by 2009, this expansion will have generated a total of 147 jobs in the state. Total state government revenues through 2009, net of MEGA costs and adjusted for inflation, would increase by \$3,161,000 (1999 dollars) due to the expansion of Cable Constructors, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Cable Constructors, Inc. expanding its present facility in Iron Mountain, Michigan to increase its engineering capacity to meet future demand for cable systems (SIC 7389). Investment activity would take place between 1999 and 2000, with an investment of \$2.49 million, and production would begin in April 2000. The new facility would employ 125 people 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 1999 to 2009, are shown in the attached table. The MEGA incentive package includes 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 2001 to 2002, 85 percent for the period 2003 to 2005, and 60 percent for the period 2006 to 2009.

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 9 jobs in 1999 and 26 jobs in 2000; almost all of these jobs are temporary. In 2002, the first year of full operations, an additional 158 jobs are generated in the state. We estimate that by 2009, this expansion will have generated a total of 147 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 1.2 over the period 2002 to 2009. 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 Cable Constructors, Inc. were to expand in Michigan under the incentive program, state personal income in 2002 would be higher by \$6.2 million (in current dollars) than it would be without the facility, and in 2009 it would be \$8.3 million higher. Adjusted for inflation, these numbers in 1999 dollars would be \$4.6 million in 2002 and \$5.3 million in 2009.

The gain in economic activity results in higher state government revenues. We estimate that in 2002, the first year of full operations, the facility would generate \$496,000 in additional gross state government revenue, and that the MEGA package would provide a \$106,000 incentive to Cable Constructors, Inc. Thus, the Cable Constructors, Inc. facility expansion would increase state government revenues in 2002 by \$390,000, net of MEGA incentive costs.

Over the period 1999 to 2009, gross state government revenue is projected to increase by \$5,400,000 (in current dollars) due to the expansion of Cable Constructors, Inc. The MEGA incentive package for Cable Constructors, Inc. is forecast to cost \$769,000 over the period, resulting in a net increase in state government revenue of \$4,631,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2009 would be \$3,161,000 in 1999 dollars. These calculations do not include any revenue losses due to the investment tax credit. If the cost 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 Cable Constructors, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2002	2003	2005	2007	2009	Total 1999-2009
Total Employment	9	126	154	158	153	147	146	147	—
Retail Trade	1	10	11	10	9	7	6	6	—
Services	1	90	130	135	133	130	129	129	—
Other	7	26	13	13	11	10	11	12	—
In current dollars (thousands):									
Personal income	300	4,100	5,400	6,200	6,500	7,000	7,600	8,300	67,500
Gross state revenue	24	328	432	496	520	560	608	664	5,400
MEGA cost	0	0	93	106	91	95	72	77	769
State revenue net of MEGA cost	24	328	339	390	429	465	536	587	4,631
Adjusted for inflation (thousands of 1999 dollars):									
Personal income	300	3,322	4,018	4,630	4,549	4,698	4,896	5,319	46,061
Gross state revenue	24	266	322	370	364	376	392	426	3,685
MEGA cost	0	0	69	79	64	64	46	49	524
State revenue net of MEGA cost	24	266	253	291	300	312	346	377	3,161

**Fiscal Effects on Michigan of the Cable Constructors, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Year	Gross State Revenue	MEGA Cost	State Revenue Net of MEGA Cost
	(In thousands of current dollars)		
1999	24	0	24
2000	328	0	328
2001	432	93	339
2002	496	106	390
2003	520	91	429
2004	544	92	452
2005	560	95	465
2006	592	69	523
2007	608	72	536
2008	632	74	558
2009	664	77	587