

**The Economic Effects on Michigan
of the Case Systems Facility Expansion Decision**

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March 12, 1996

Abstract

Case Systems is considering leasing, renovating, and adding new equipment to an existing building in Midland, Michigan, into which they will move and operate their institutional and laboratory furniture fabrication business. By 1999, the facility would employ 110 people. We estimate that by 2011, this expansion will have generated a total of 268 jobs in the state. Total state government revenues through 2011, net of MEGA costs and adjusted for inflation, would be increased by \$10,871,000 (1996 dollars) due to the expansion of Case Systems.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Case Systems' leasing, renovating, and adding new equipment to an existing building in Midland Michigan, into which they will move and operate their institutional and laboratory furniture fabrication business (SIC 2521). Renovation activity would take place in 1996, with an investment of \$2.1 million, and production would begin in January 1997. The facility would employ 110 workers by 1999.

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 1996 to 2011, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 1999-2011 equal to 2.2 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 50 percent of the maximum employment credit available to a company.

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 renovation of the facility and investment in machinery and equipment is expected to generate a total of 26 jobs in 1996; almost all of these jobs are temporary. In 1999, the first year of full production, an additional 232 jobs are generated in the state. We estimate that by 2011, this facility will have generated a total of 268 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 2.2 over the period 1999-2011. 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 Case Systems were to expand in Michigan under the incentive program, state personal income in 1999 would be higher by \$11.2 million (in current dollars) than it would be without the facility, and in 2011 it would be \$23.9 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$8.5 million in 1999 and \$12.4 million in 2011.

The gain in economic activity results in higher state government revenues. The renovation of the facility and investment in machinery and equipment would generate \$80,000 in 1996 (in current dollars) in additional gross state revenue. Since there are no MEGA incentives offered in 1996, this value is also the impact on net state revenue.. We estimate that in 1999, the first year of full production, the operation of the facility would generate \$896,000 in additional gross state government revenue, and that the MEGA package would provide a \$63,000 incentive to Case Systems. Thus, the Case Systems facility would generate an additional \$833,000 in revenue to state government in 1999, net of MEGA incentive costs.

Over the period 1996-2011, gross state government revenue is projected to increase by \$18,800,000 (in current dollars) due to the expansion of Case Systems. The MEGA incentive package for Case Systems is forecast to cost \$1,112,000 over the period, resulting in a net increase in state government revenue of \$17,688,000. Adjusted for inflation, the total net increase in state government revenue from 1996 to 2011 would be \$10,871,000 in 1996 dollars.

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.