

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

**George A. Fulton
Peter Nicolas
Donald R. Grimes**

**University of Michigan
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Abstract

Centaur, Inc., a holding company that owns all or part of Heidtman Steel Products, Inc., H.S. Processing L.P., and Mizer Motors, Inc., is considering building a 24,000-30,000 square-foot headquarters facility to house various departments for the operating companies. The relocation of workers to this facility would be an addition to the 46 employees already located in Michigan. The expanded facility would employ 118 additional people by 2002. We estimate that by 2006, this expansion will have generated a total of 185 jobs in the state. Total state government revenues through 2006, net of MEGA costs and adjusted for inflation, would increase by \$4,088,000 (1998 dollars) due to the expansion of Centaur, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if Centaur, Inc. (a holding company that owns all or part of Heidtman Steel Products, Inc., H.S. Processing L.P., and Mizer Motors, Inc.) builds a 24,000-30,000 square-foot headquarters facility to house various departments for the operating companies. The relocation of workers to this facility would be an addition to the 46 employees already located in Michigan. Investment activity would take place in 1999, with an investment of \$3.311 million. The new facility would employ 118 additional 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 2006, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2001 through 2006 equal to 2.2 percent of the payroll (gross wages) of employees hired at the facility as a result of the expansion. 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 construction of the facility is expected to generate a total of 51 jobs in 1999; almost all of these jobs are temporary. In 2002, the first year of full operations, an additional 215 jobs are generated in the state. We estimate that by 2006, this facility addition will have generated a total of 185 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 1.7 over the period 2002 to 2006. 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 Centaur, Inc. were to expand in Michigan under the incentive program, state personal income in 2002 would be higher by \$12.2 million (in current dollars) than it would be without the facility, and in 2006 it would be \$14.3 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$8.8 million in 2002 and \$8.9 million in 2006.

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 \$976,000 in additional gross state government revenue, and that the MEGA package would provide a \$97,000 incentive to Centaur, Inc. Thus, the Centaur, Inc. facility expansion would increase state government revenues in 2002 by \$879,000, net of MEGA incentive costs.

Over the period 1999 to 2006, gross state government revenue is projected to increase by \$6,768,000 (in current dollars) due to the expansion of Centaur, Inc. The MEGA incentive package for Centaur, Inc. is forecast to cost \$749,000 over the period, resulting in a net increase in state government revenue of \$6,019,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2006 would be \$4,088,000 in 1998 dollars. These calculations do not include any revenue losses due to the property tax abatement or the Capital Acquisition Deduction. If the cost of the abatement or the CAD 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 Centaur, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2002	2003	2004	2005	2006	Total 1999-2006
Total Employment	51	168	158	215	205	198	190	185	—
Manufacturing	2	88	87	118	118	118	118	118	—
Nonmanufacturing	49	80	71	97	87	80	72	67	—
Retail Trade	6	24	22	30	28	26	24	23	—
Services	9	34	30	42	37	34	30	28	—
Other	34	22	19	25	22	20	18	16	—
In current dollars (thousands):									
Personal income	2,000	7,700	8,400	12,200	12,800	13,400	13,800	14,300	84,600
Gross state revenue	160	616	672	976	1,024	1,072	1,104	1,144	6,768
MEGA cost	0	0	94	97	132	137	142	147	749
State revenue net of MEGA cost*	160	616	578	879	892	935	962	997	6,019
Adjusted for inflation (thousands of 1998 dollars):									
Personal income	1,510	6,000	6,034	8,823	8,658	8,687	8,734	8,856	57,304
Gross state revenue	121	480	483	706	692	695	699	709	4,584
MEGA cost	0	0	68	70	89	89	90	91	496
State revenue net of MEGA cost*	121	480	415	636	603	606	609	618	4,088

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