

**The Economic Effects on Michigan of the
Champion Foods, LLC Facility Location Decision**

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Abstract

Champion Foods, LLC, a creation of Illitch Holdings, Inc., is considering purchasing and expanding an existing building in Huron Township, Michigan to manufacture and package partially baked pizza crusts to be distributed to grocery stores, delicatessens, and the like. The facility would employ an additional 199 people by 2007. We estimate that by 2023, this location will have generated a total of 411 jobs in the state. Total state government revenues through 2023, net of MEGA costs and adjusted for inflation, would increase by \$20,792,000 (2002 dollars) due to the location of Champion Foods, LLC.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Champion Foods, LLC, a creation of Illitch Holdings, Inc., purchasing and expanding an existing building in Huron Township, Michigan to manufacture and package partially baked pizza crusts to be distributed to grocery stores, delicatessens, and the like (SIC 2051). Investment activity would take place between 2002 and 2006, with an investment of \$42.6 million. The facility would employ an additional 199 people by 2007.

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 2023, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2004 to 2023; it also includes a tax credit to the company for the same period 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.

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 investment activity is expected to generate a total of 2 jobs in 2002, 84 jobs in 2003, 72 jobs in 2004, and 113 jobs in 2006; almost all of these jobs are temporary. In 2007, the first year of full operations, an additional 399 jobs are generated in the state. We estimate that by 2023, this location will have generated a total of 411 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 1.9 over the period 2007 to 2023. 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 Champion Foods, LLC were to locate in Michigan under the incentive program, state personal income in 2007 would be higher by \$21.2 million (in current dollars) than it would be without the facility, and in 2023 it would be \$37.7 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$14.5 million in 2007 and \$19.9 million in 2023.

The gain in economic activity results in higher state government revenues. We estimate that in 2007, the first year of full operations, the facility would generate \$1,696,000 in additional gross state government revenue, and that the MEGA package would provide a \$466,000 incentive to Champion Foods, LLC. Thus, the Champion Foods, LLC facility location would increase state government revenues in 2023 by \$1,230,000, net of MEGA incentive costs.

Over the period 2002 to 2023, gross state government revenue is projected to increase by \$41,864,000 (in current dollars) due to the location of Champion Foods, LLC. The MEGA incentive package for Champion Foods, LLC is forecast to cost \$7,693,000 over the period, resulting in a net increase in state government revenue of \$34,171,000. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2023 would be \$20,792,000 in 2002 dollars. These calculations do not include any revenue losses due to the Investment Tax Credit or the property tax abatement. If the costs of the tax credit or the tax 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 Champion Foods, LLC Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	2007	2010	2015	2020	2023	Total 2002-2023
Total Employment	13	177	257	210	412	399	369	371	396	411	—
Manufacturing	6	55	94	106	159	206	199	199	203	205	—
Nonmanufacturing	7	122	163	104	253	193	170	172	193	206	—
Retail Trade	2	21	30	22	44	40	32	30	33	35	—
Services	4	38	44	38	78	70	57	57	69	77	—
Other	1	63	89	44	131	83	81	85	91	94	—
In current dollars (thousands):											
Personal income	500	7,600	11,700	10,500	20,600	21,200	22,700	26,600	33,100	37,700	523,300
Gross state revenue	40	608	936	840	1,648	1,696	1,816	2,128	2,648	3,016	41,864
MEGA cost	0	0	151	293	319	466	453	420	370	357	7,693
State revenue net of MEGA cost*	40	608	785	547	1,329	1,230	1,363	1,708	2,278	2,659	34,171
Adjusted for inflation (thousands of 2002 dollars):											
Personal income	500	5,956	8,722	7,353	14,350	14,456	14,897	16,353	18,375	19,858	319,542
Gross state revenue	40	477	698	588	1,148	1,156	1,192	1,308	1,470	1,589	25,563
MEGA cost	0	0	112	205	222	318	297	258	205	188	4,771
State revenue net of MEGA cost*	40	477	586	383	926	838	895	1,050	1,265	1,401	20,792

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