

**The Economic Effects on Michigan of the
Eaton Hydraulics Plant Consolidation**

Prepared by the Michigan Economic Development Corporation utilizing Regional
Economic Models, Incorporated (REMI) software.

September 7, 2001

Abstract

Eaton Hydraulics is considering a consolidation of its Illinois and Michigan facilities in Blackman Township, Michigan. The consolidation would add 119 employees to the facility by the end of 2002. We estimate that by 2011, this expansion will have generated a total of 176 jobs in the state. Total state government revenues through 2011, net of MEGA costs and adjusted for inflation, would increase by \$5.7 million (2001 dollars) due to the Eaton Hydraulics Plant Consolidation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Eaton Hydraulics' consolidation of its Illinois and Michigan facilities in Blackman Township. Investment activity would take place between 2002 and 2004 with an investment of \$5.4 million. The facility would employ an additional 119 people and would be at full production by 2002.

The estimates of the benefits attributable to the project 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 2011, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2002 to 2011, and 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 for the period 2002 to 2011.

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 created from two sources, increased purchases from Michigan suppliers and spending by people who receive income due to the increased economic activity. In 2002, the first year of full operations, an additional 119 jobs are generated in the state. The total number of jobs (direct plus spin-off) for every direct job introduced constitutes the "employment multiplier." The employment multiplier for the expansion averages 1.66 over the period 2002 to 2011. Sectoral detail on the employment 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 Eaton Hydraulics were to consolidate its Illinois operations in Michigan under the incentive program, state personal income in 2002 would be higher by \$9.8 million (in current dollars) than it would be without the facility, and in 2011, it would be \$12.9 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$9.6 million in 2002 and \$10.5 million in 2011.

The gain in economic activity results in higher government revenues. We estimate that in 2005, the first year of full operations without investment activity, the facility would generate \$884,000 in additional gross state revenue, and that the MEGA package would provide a \$277,000 incentive to Eaton Hydraulics. Thus, the new Eaton Hydraulics facility would increase state revenues in 2005 by \$607,000, net of MEGA costs.

Over the period 2002 to 2011 state government revenue is projected to increase by \$9.2 million (in current dollars) due to the new Eaton Hydraulics facility. The MEGA incentive package for Eaton Hydraulics is forecast to cost \$2.8 million over the period, resulting in a net increase in state government revenue of \$6.4 million. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2011 would be \$5.7 million in 2001 dollars. These calculations do not include any revenue losses due to the property tax abatement or the investment tax credit. If the costs of the abatement and the tax credit were included, the net revenue gain to state government would be slightly less.

None of the 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.

Eaton Hydraulics Plant Consolidation
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package

| Economic/Fiscal Indicator | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2010 | 2011 | Total |
|--|---------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Total Employment | 241 | 226 | 211 | 199 | 192 | 186 | 180 | 176 | |
| Manufacturing | 134 | 130 | 127 | 124 | 123 | 122 | 121 | 120 | |
| Non-Manufacturing | 107 | 96 | 84 | 75 | 69 | 64 | 59 | 56 | |
| Retail Trade | 24 | 22 | 20 | 18 | 17 | 16 | 15 | 14 | |
| Services | 43 | 38 | 33 | 29 | 27 | 26 | 25 | 24 | |
| Other | 40 | 36 | 31 | 28 | 25 | 22 | 19 | 18 | |
| In Current Dollars (Thousands): | | | | | | | | | |
| Personal Income | \$9,827 | \$10,620 | \$10,890 | \$11,050 | \$11,230 | \$11,570 | \$12,600 | \$12,850 | \$114,657 |
| Gross State Revenue | 786 | 850 | 871 | 884 | 898 | 926 | 1,008 | 1,028 | 9,172 |
| Mega Cost | 244 | 262 | 271 | 277 | 280 | 282 | 287 | 289 | 2,761 |
| State Revenue Net of MEGA Cost* | \$542 | \$588 | \$600 | \$607 | \$618 | \$644 | \$721 | \$739 | \$6,411 |
| Adjusted for Inflation (Thousands of 2001 Dollars): | | | | | | | | | |
| Personal Income | \$9,648 | \$10,227 | \$10,281 | \$10,227 | \$10,191 | \$10,294 | \$10,529 | \$10,501 | \$102,629 |
| Gross State Revenue | 772 | 819 | 822 | 818 | 815 | 824 | 842 | 840 | 8,210 |
| Mega Cost | 240 | 252 | 256 | 256 | 254 | 251 | 240 | 236 | 2,476 |
| State Revenue Net of MEGA Cost* | \$532 | \$567 | \$566 | \$562 | \$561 | \$573 | \$602 | \$604 | \$5,734 |

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