

**The Economic Effects on Michigan of the
Flowserve FSD Corporation Facility Expansion Decision**

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Abstract

Flowserve FSD Corporation is considering expanding its research and development and engineering capabilities at its existing facility in Kalamazoo, Michigan. The expanded facility would employ an additional 125 people by 2003. We estimate that by 2020, this expansion will have generated a total of 214 jobs in the state. Total state government revenues through 2020, net of MEGA costs and adjusted for inflation, would increase by \$14,525,000 (2000 dollars) due to the expansion of the Flowserve FSD Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Flowserve FSD Corporation expanding its research and development and engineering capabilities at its existing facility in Kalamazoo, Michigan (SIC 3053). Investment activity would take place between 2000 and 2004, with an investment of \$12.68 million. The facility would employ an additional 125 people and be at full production by 2003.

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 2000 to 2020, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2001 to 2010 and from 50 percent of the single business tax for the period 2011 to 2020; it also 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 2010 and equal to 50 percent for the period 2011 to 2020.

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 8 jobs in 2000 and 41 jobs in 2001; almost all of these jobs are temporary. In 2003, the first year of full operations, an additional 227 jobs are generated in the state. We estimate that by 2020, this expansion will have generated a total of 214 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 1.6 over the period 2003 to 2020. 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 Flowserve FSD Corporation were to expand in Michigan under the incentive program, state personal income in 2003 would be higher by \$13.1 million (in current dollars) than it would be without the facility, and in 2020 it would be \$26.3 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$10.1 million in 2003 and \$13.3 million in 2020.

The gain in economic activity results in higher state government revenues. We estimate that in 2003, the first year of full operations without investment activity, the facility would generate \$1,048,000 in additional gross state government revenue, and that the MEGA package would provide a \$289,000 incentive to Flowserve FSD Corporation. Thus, the Flowserve FSD Corporation facility expansion would increase state government revenues in 2003 by \$759,000, net of MEGA incentive costs.

Over the period 2000 to 2020, gross state government revenue is projected to increase by \$28,816,000 (in current dollars) due to the expansion of Flowserve FSD Corporation. The MEGA incentive package for Flowserve FSD Corporation is forecast to cost \$4,918,000 over the period, resulting in a net increase in state government revenue of \$23,898,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2020 would be \$14,525,000 in 2000 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 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 Flowserve FSD Corporation Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2004	2005	2010	2015	2020	Total 2000-2020
Total Employment	48	192	184	227	218	207	188	199	214	—
Manufacturing	20	80	98	125	125	125	125	125	125	—
Nonmanufacturing	28	112	86	102	93	82	63	74	89	—
Retail Trade	6	27	23	28	26	24	20	21	23	—
Services	11	47	41	50	46	41	31	34	40	—
Other	11	38	22	24	21	17	12	19	26	—
In current dollars (thousands):										
Personal income	2,100	9,000	10,000	13,100	14,000	14,500	17,000	21,100	26,300	360,200
Gross state revenue	168	720	800	1,048	1,120	1,160	1,360	1,688	2,104	28,816
MEGA cost	0	159	229	289	291	302	344	198	229	4,918
State revenue net of MEGA cost*	168	561	571	759	829	858	1,016	1,490	1,875	23,898
Adjusted for inflation (thousands of 2000 dollars):										
Personal income	2,100	7,633	7,917	10,094	9,960	10,089	10,728	12,051	13,294	220,882
Gross state revenue	168	611	633	808	797	807	858	964	1,064	17,671
MEGA cost	0	135	181	223	207	210	217	113	116	3,146
State revenue net of MEGA cost*	168	476	452	585	590	597	641	851	948	14,525

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