

**The Economic Effects on Michigan  
of the Gerber Products Company Facility Expansion Decision**

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### Abstract

*Gerber Products Company is considering expanding its baby food production facility in Michigan as a result of the closure of its Asheville, North Carolina facility. The facility would employ 125 people. We estimate that by 2018, this expansion will have generated a total of 373 jobs in the state. Total state government revenues through 2018, net of MEGA costs and adjusted for inflation, would be increased by \$17,859,000 (1997 dollars) due to the expansion of Gerber Products Company.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Gerber Products Company expanding its baby food production facility in Michigan as a result of the closure of its Asheville, North Carolina facility (SIC 2032). Investment activity would take place between 1998 and 2000, with an investment of \$48.9 million, and operations would begin in May 1998. The facility would employ 125 workers.

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 1998 to 2018, are shown in the attached table. The MEGA incentive package includes relief from 85 percent of the single business tax for the period 1999-2018 and a tax credit to the company for the same period equal to 3.74 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 85 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 expansion of the facility is expected to generate 130 construction-related jobs in 1998, 101 in 1999, and 91 in 2000; almost all of these jobs are temporary. In 2001, the first year of full operations without construction activity, an additional 330 jobs are generated in the state. We estimate that by 2018 this facility will have generated a total of 373 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 2.7 over the period 2001-2018. 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 Gerber Products Company were to expand in Michigan under the incentive program, state personal income in 2001 would be higher by \$17.4 million (in current dollars) than it would be without the facility, and in 2018 it would be \$34.5 million higher. Adjusted for inflation, these numbers in 1997 dollars would be \$12.4 million in 2001 and \$17.2 million in 2018.

The gain in economic activity results in higher state government revenues. We estimate that in 2001, the first year of full operations without construction activity, the facility would generate \$1,392,000 in additional gross state government revenue, and that the MEGA package would provide a \$355,000 incentive to Gerber Products Company. Thus, the Gerber Products Company facility expansion would generate an additional \$1,037,000 in revenue to state government in 2001, net of MEGA incentive costs.

Over the period 1998-2018, gross state government revenue is projected to increase by \$39,256,000 (in current dollars) due to the expansion of Gerber Products Company. The MEGA incentive package for Gerber Products Company is forecast to cost \$9,072,000 over the period, resulting in a net increase in state government revenue of \$30,184,000. Adjusted for inflation, the total net increase in state government revenue from 1998 to 2018 would be \$17,859,000 in 1997 dollars. These calculations do not include any revenue losses due to the property tax abatement. If the cost of the 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 Gerber Products Company Facility Expansion  
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1998	1999	2000	2001	2005	2010	2015	2018	Total 1998-2018
Total Employment	354	468	446	330	315	333	359	373	—
Manufacturing	118	172	164	143	139	141	144	145	—
Nonmanufacturing	236	296	282	187	176	192	215	228	—
Retail Trade	46	59	54	36	31	32	35	37	—
Services	78	100	92	64	61	72	87	96	—
Other	112	137	136	87	84	88	93	95	—
In current dollars (thousands):									
Personal income	14,000	20,100	21,300	17,400	19,200	23,800	29,900	34,500	490,700
Gross state revenue	1,120	1,608	1,704	1,392	1,536	1,904	2,392	2,760	39,256
MEGA cost	0	326	344	355	400	466	547	604	9,072
State revenue net of MEGA cost*	1,120	1,282	1,360	1,037	1,136	1,438	1,845	2,156	30,184
Adjusted for inflation (thousands of 1997 dollars):									
Personal income	11,748	15,770	15,973	12,373	12,902	14,571	16,288	17,226	304,053
Gross state revenue	940	1,262	1,278	990	1,032	1,166	1,303	1,378	24,324
MEGA cost	0	312	320	320	322	324	327	330	6,465
State revenue net of MEGA cost*	940	950	958	670	710	842	976	1,048	17,859

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