

**The Economic Effects on Michigan
of the Hi-Lex Controls, Inc. Facility Expansion Decision**

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

**University of Michigan
June 11, 1996**

Abstract

Hi-Lex Controls, Inc. is considering building a 58,500 square foot addition to its existing 105,000 square foot plant in Litchfield, Michigan. The company will manufacture window regulators for the Suburban, Tahoe, C/K Pick-up, Yukon and Crew Cab trucks under a contract with General Motors. By 1999, the facility would employ 197 people. We estimate that by 2007, this expansion will have generated a total of 561 jobs in the state. Total state government revenues through 2007, net of MEGA costs and adjusted for inflation, would be increased by \$14,332,000 (1996 dollars) due to the expansion of Hi-Lex Controls, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Hi-Lex Controls, Inc.'s building a 58,500 square foot addition to its existing 105,000 square foot plant in Litchfield, Michigan. The company will manufacture window regulators for the Suburban, Tahoe, C/K Pick-up, Yukon and Crew Cab trucks under a contract with General Motors (SIC 3714). Construction activity would take place between 1998 and 2000, with an investment of \$9.642 million, and production would begin in May 1998. The facility would employ 197 workers by 1999.

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 1997 to 2007, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 1998-2007 equal to 2.2 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. 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 42 jobs in 1998, 22 jobs in 1999, and 11 jobs in 2000; almost all of these jobs are temporary. In 1999, the first year of full production, an additional 553 jobs are generated in the state. We estimate that by 2007 this facility will have generated a total of 561 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 2.8 over the period 1999-2007. 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 Hi-Lex Controls, Inc. were to expand in Michigan under the incentive program, state personal income in 1999 would be higher by \$23.4 million (in current dollars) than it would be without the facility, and in 2007 it would be \$36.6 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$18 million in 1999 and \$23.2 million in 2007.

The gain in economic activity results in higher state government revenues. We estimate that in 1999, the first year of full production, the operation of the facility would generate \$1,872,000 in additional gross state government revenue, and that the MEGA package would provide a \$124,000 incentive to Hi-Lex Controls, Inc. Thus, the Hi-Lex Controls, Inc. facility would generate an additional \$1,748,000 in revenue to state government in 1999, net of MEGA incentive costs.

Over the period 1997-2007, gross state government revenue is projected to increase by \$22,856,000 (in current dollars) due to the expansion of Hi-Lex Controls, Inc. The MEGA incentive package for Hi-Lex Controls, Inc. is forecast to cost \$1,431,000 over the period, resulting in a net increase in state government revenue of \$21,425,000. Adjusted for inflation, the total net increase in state government revenue from 1997 to 2007 would be \$14,332,000 in 1996 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 Hi-Lex Controls, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1997	1998	1999	2000	2005	2007	Total 1997-2007
Total Employment	21	337	553	549	541	561	—
Manufacturing	21	154	237	229	210	210	—
Nonmanufacturing	0	183	316	320	331	351	—
Retail Trade	0	38	68	68	66	69	—
Services	0	66	128	126	125	134	—
Other	0	79	120	126	140	148	—
In current dollars (thousands):							
Personal income	600	12,700	23,400	26,100	33,300	36,600	285,700
Gross state revenue	48	1,016	1,872	2,088	2,664	2,928	22,856
MEGA cost	0	85	124	135	160	172	1,431
State revenue net of MEGA cost	48	931	1,748	1,953	2,504	2,756	21,425
Adjusted for inflation (thousands of 1996 dollars):							
Personal income	583	10,472	18,001	18,744	21,448	23,225	193,970
Gross state revenue	47	838	1,440	1,500	1,716	1,858	15,518
MEGA cost	0	80	114	121	125	127	1,186
State revenue net of MEGA cost	47	758	1,326	1,379	1,591	1,731	14,332

**Fiscal Effects on Michigan of the Hi-Lex Controls, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Year	Gross State Revenue	MEGA Cost	State Revenue Net of MEGA Cost
	(In thousands of current dollars)		
1997	48	0	48
1998	1,016	85	931
1999	1,872	124	1,748
2000	2,088	135	1,953
2001	2,184	140	2,044
2002	2,304	145	2,159
2003	2,416	149	2,267
2004	2,536	155	2,381
2005	2,664	160	2,504
2006	2,800	166	2,634
2007	2,928	172	2,756