

**The Economic Effects on Michigan of
the Hoover Universal, Inc., Facility Retention Decision**

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Abstract

Hoover Universal, Inc., a wholly owned subsidiary of Johnson Controls, is considering upgrading a Johnson Controls facility in Battle Creek, Michigan, to produce metal seat frames for the automotive industry. The facility would retain 203 employees by 2008. We estimate that by 2025, this retention will have generated a total of 520 jobs in the state. Total state government revenues through 2025, net of MEGA costs and adjusted for inflation, would increase by \$31,614,000 (2005 dollars) due to the retention of this Hoover Universal, Inc., facility.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if Hoover Universal, Inc., a wholly owned subsidiary of Johnson Controls, upgrades a Johnson Controls facility in Battle Creek, Michigan, to produce metal seat frames for the automotive industry (SIC 3363). Investment activity would take place in 2005, with an investment of \$49.9 million. The facility would retain 203 employees by 2008.

The estimates of the benefits include the total number of jobs retained 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 2005 to 2025, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2006 through 2025; 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 retained 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 retained 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 216 jobs in 2005; almost all of these jobs are temporary. In 2008, the first year of full operations, 488 jobs are retained in the state. We estimate that by 2025, there will be a total of 520 additional jobs in the state as a result of this retention. The total number of jobs retained (direct plus spin-off) for every direct job retained constitutes the "employment multiplier." The employment multiplier for the retention averages 2.3 over the period 2008 to 2025. 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 Hoover Universal, Inc., were to retain its operations in Michigan under the incentive program, state personal income in 2008 would be higher by \$30 million (in current dollars) than it would be without the retention, and in 2025 it would be \$59.8 million higher. Adjusted for inflation, these numbers in 2005 dollars would be \$24.7 million in 2008 and \$34.8 million in 2025.

The gain in economic activity results in higher state government revenues. We estimate that in 2008, the first year of full operations, the facility retention would generate \$2,307,000 in additional gross state government revenue, and that the MEGA package would provide a \$626,000 incentive to Hoover Universal, Inc. Thus, the Hoover Universal, Inc., facility retention would increase state government revenues in 2008 by \$1,681,000, net of MEGA incentive costs.

Over the period 2005 to 2025, gross state government revenue is projected to increase by \$61,620,000 (in current dollars) due to the retention of the Hoover Universal, Inc., facility. The MEGA incentive package for Hoover Universal, Inc., is forecast to cost \$15,916,000 over the period, resulting in a net increase in state government revenue of \$45,704,000. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2025 would be \$31,614,000 in 2005 dollars.

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 Hoover Universal, Inc., Facility Retention
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2010	2015	2020	2025	Total 2005-2025
Total employment	216	229	370	488	456	436	473	520	—
Manufacturing	27	102	163	214	204	203	203	204	—
Nonmanufacturing	189	127	207	274	252	233	270	316	—
Retail trade	26	30	47	62	55	50	55	62	—
Services	64	48	77	101	88	83	102	126	—
Other	99	49	83	111	109	100	113	128	—
In current dollars (thousands):									
Personal income	11,000	12,900	21,600	30,000	32,400	37,400	46,900	59,800	801,300
Gross state revenue	846	992	1,661	2,307	2,492	2,876	3,607	4,599	61,620
MEGA cost	0	431	537	626	641	754	919	1,163	15,916
State revenue net of MEGA cost*	846	561	1,124	1,681	1,851	2,122	2,688	3,436	45,704
Adjusted for inflation (thousands of 2005 dollars):									
Personal income	11,000	12,115	18,863	24,702	25,374	26,799	30,306	34,767	554,500
Gross state revenue	846	932	1,451	1,900	1,951	2,061	2,331	2,674	42,641
MEGA cost	0	405	469	515	502	541	594	676	11,027
State revenue net of MEGA cost*	846	527	982	1,385	1,449	1,520	1,737	1,998	31,614

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