

**The Economic Effects on Michigan of the
Housey Pharmaceutical Research Facility**

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

July 6, 2001

Abstract

Housey Pharmaceutical, Inc. is considering building an office and research laboratory space for pharmaceutical research in Southfield, Michigan. This facility would focus on activities related to the creation, discovery, development, and marketing of prescription drugs. The new facility would employ up to 70 people by the end of 2007. We estimate that by 2014, this location will have generated a total of 88 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by \$3.9 million (2001 dollars) due to the location of the Housey Pharmaceutical Research Facility.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Housey Pharmaceutical, Inc. locating an office and research laboratory facility in Southfield. Investment activity would take place between 2001 and 2006 with an investment of \$4.2 million. The facility would employ an additional 70 people and would be at full production by 2007.

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 2001 to 2014, are shown in the attached table. The MEGA incentive package 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 for the period 2002 to 2014.

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 2007, the first year of full operations, an additional 123 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 1.07 over the period 2001 to 2014. 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 Housey Pharmaceutical, Inc. were to locate in Michigan under the incentive program, state personal income in 2007 would be higher by \$7,355 million (in current dollars) than it would be without the facility, and in 2014, it would be \$9,033 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$6,544 million in 2007 and \$6,897 million in 2014.

The gain in economic activity results in higher government revenues. We estimate that in 2007, the first year of full operations without investment activity, the facility would generate \$0.6 million in additional gross state revenue, and that the MEGA package would provide a \$140,000 incentive to Housey Pharmaceutical, Inc. Thus, the new Housey Pharmaceutical, Inc. facility would increase state revenues in 2007 by \$0.4 million, net of MEGA costs.

Over the period 2001 to 2014 state government revenue is projected to increase by \$6 million (in current dollars) due to the new Housey Pharmaceutical, Inc. facility. The MEGA incentive package for Housey Pharmaceutical, Inc. is forecast to cost \$1.4 million over the period, resulting in a net increase in state government revenue of \$4.6 million. Adjusted for inflation, the total net increase in state government revenue from 2001 to 2014 would be \$3.9 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.

**Housey Pharmaceutical Research Facility
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2001	2002	2003	2004	2005	2006	2007	2010	2014	Total
Total Employment		3	12	25	43	72	123	105	88	
Manufacturing	0	1	0	0	0	0	(1)	(4)	(7)	
Non-Manufacturing	0	2	12	25	43	72	124	109	95	
Retail Trade	0	0	1	3	4	7	12	10	7	
Services	0	1	8	18	33	55	97	90	83	
Other	0	1	3	4	6	10	15	9	5	
In Current Dollars (Thousands):										
Personal Income	\$0	\$122	\$610	\$1,312	\$2,319	\$4,059	\$7,355	\$8,423	\$9,033	\$75,562
Gross State Revenue	0	10	49	105	186	325	588	674	723	6,047
Mega Cost	0	0	11	22	43	75	140	156	181	1,429
State Revenue Net of MEGA Cost*	\$0	\$10	\$38	\$83	\$143	\$250	\$448	\$518	\$542	\$4,618
Adjusted for Inflation (Thousands of 2001 Dollars):										
Personal Income	\$0	\$120	\$587	\$1,239	\$2,146	\$3,683	\$6,544	\$7,038	\$6,897	\$63,110
Gross State Revenue	0	10	47	99	172	295	523	563	552	5,049
Mega Cost	0	0	10	20	40	68	125	130	138	1,189
State Revenue Net of MEGA Cost*	\$0	\$10	\$37	\$79	\$132	\$227	\$398	\$433	\$414	\$3,860