

**The Economic Effects on Michigan
of the IMCO Recycling Location Decision**

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Abstract

IMCO Recycling is considering locating in Michigan a facility to annually reprocess up to 150 million pounds of their clients' recyclable aluminum scrap. By 1999, the facility would employ 110 people. We estimate that by 2009, this location will have generated a total of 221 jobs in the state. Total state government revenues through 2009, net of MEGA costs and adjusted for inflation, would be increased by \$6,783,000 (1996 dollars) due to the location of IMCO Recycling.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of IMCO Recycling's locating in Michigan a facility to annually reprocess up to 150 million pounds of their client's recyclable aluminum scrap (SIC 3341). The construction would take place in 1996, with an investment of \$11 million, and production would begin in April 1997. The facility would employ 110 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 1996 to 2009, are shown in the attached table. The MEGA incentive package includes relief from the single business tax for the period 1998-2007 and a tax credit to the company for the period 1998-2009 equal to 4.4 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 100 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 and investment in machinery and equipment is expected to generate a total of 120 jobs in 1996; almost all of these jobs are temporary. In 1999, the first year of full production, an additional 213 jobs are generated in the state. We estimate that by 2009, this facility will have generated a total of 221 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 1.9 over the period 1999-2009. 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 IMCO Recycling were to locate in Michigan under the incentive program, state personal income in 1999 would be higher by \$10.8 million (in current dollars) than it would be without the facility, and in 2009 it would be \$18.3 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$8.6 million in 1999 and \$10.5 million in 2009.

The gain in economic activity results in higher state government revenues. The construction of the facility and investment in machinery and equipment would generate \$360,000 in 1996 (in current dollars) in additional gross state revenue. Since there are no MEGA incentives offered in 1996, this value is also the impact on net state revenue. We estimate that in 1999, the first year of full production, the operation of the facility would generate \$864,000 in additional gross state government revenue, and that the MEGA package would provide a \$299,000 incentive to IMCO Recycling. Thus, the IMCO Recycling facility would generate an additional \$565,000 in revenue to state government in 1999, net of MEGA incentive costs.

Over the period 1996-2009, gross state government revenue is projected to increase by \$14,168,000 (in current dollars) due to the location of IMCO Recycling. The MEGA incentive package for IMCO Recycling is forecast to cost \$3,941,000 over the period, resulting in a net increase in state government revenue of \$10,227,000. Adjusted for inflation, the total net increase in state government revenue from 1996 to 2009 would be \$6,783,000 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 IMCO Recycling Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1996	1997	1998	1999	2000	2005	2009	Total 1996-2009
Total Employment	120	128	193	213	210	208	221	—
Manufacturing	12	60	103	112	110	110	110	—
Nonmanufacturing	108	68	90	101	100	98	111	—
Retail Trade	18	14	21	23	22	20	22	—
Services	28	22	31	34	33	31	36	—
Other	62	32	38	44	45	47	53	—
In current dollars (thousands):								
Personal income	4,500	5,700	8,900	10,800	11,700	15,000	18,300	177,100
Gross state revenue	360	456	712	864	936	1,200	1,464	14,168
MEGA cost*	0	0	267	299	311	380	256	3,941
State revenue net of MEGA cost	360	456	445	565	625	820	1,208	10,227
Adjusted for inflation (thousands of 1996 dollars):								
Personal income	4,500	5,174	7,466	8,565	8,861	9,671	10,456	121,692
Gross state revenue	360	414	597	685	709	774	836	9,735
MEGA cost*	0	0	247	266	266	267	154	2,952
State revenue net of MEGA cost	360	414	350	419	443	507	682	6,783

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