

**The Economic Effects on Michigan of the
La-Z-Boy Inc. Facility Expansion Decision**

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Abstract

La-Z-Boy Inc. is considering creating a new Information Technologies division to be housed at its corporate headquarters in Monroe, Michigan. The division would employ 92 people by 2001. We estimate that by 2014, this expansion will have generated a total of 152 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by \$5,953,000 (1999 dollars) due to the expansion of La-Z-Boy Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of La-Z-Boy Inc. creating a new Information Technologies division to be housed at its corporate headquarters in Monroe, Michigan (SIC 2512). Investment activity would take place between 2000 and 2002, with an investment of \$3.6 million. The facility would employ 92 people by 2001.

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 2000 to 2014, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2001 to 2014 equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired 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 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 activity is expected to generate a total of 46 jobs in 2000 and 7 jobs in 2001; almost all of these jobs are temporary. In 2001, the first year of full operations, an additional 171 jobs are generated in the state. We estimate that by 2014, this expansion will have generated a total of 152 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 1.6 over the period 2001 to 2014. 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 La-Z-Boy Inc. were to expand in Michigan under the incentive program, state personal income in 2001 would be higher by \$8 million (in current dollars) than it would be

without the facility, and in 2014 it would be \$13.3 million higher. Adjusted for inflation, these numbers in 1999 dollars would be \$6 million in 2001 and \$7.4 million in 2014.

The gain in economic activity results in higher state government revenues. We estimate that in 2001, the first year of full operations, the facility would generate \$640,000 in additional gross state government revenue, and that the MEGA package would provide a \$163,000 incentive to La-Z-Boy Inc. Thus, the La-Z-Boy Inc. facility expansion would increase state government revenues in 2001 by \$477,000, net of MEGA incentive costs.

Over the period 2000 to 2014, gross state government revenue is projected to increase by \$12,016,000 (in current dollars) due to the expansion of La-Z-Boy Inc. The MEGA incentive package for La-Z-Boy Inc. is forecast to cost \$2,709,000 over the period, resulting in a net increase in state government revenue of \$9,307,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2014 would be \$5,953,000 in 1999 dollars. These calculations do not include any revenue losses due to the investment tax credit. If the costs of the tax credit 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 La-Z-Boy Inc. Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2005	2010	2014	Total 2000-2014
Total Employment	157	171	144	145	152	—
Manufacturing	63	93	92	92	92	—
Nonmanufacturing	94	78	52	53	60	—
Retail Trade	23	24	18	17	17	—
Services	29	32	23	22	25	—
Other	42	22	11	14	18	—
In current dollars (thousands):						
Personal income	6,500	8,000	9,200	11,000	13,300	150,200
Gross state revenue	520	640	736	880	1,064	12,016
MEGA cost	0	163	174	207	239	2,709
State revenue net of MEGA cost*	520	477	562	673	825	9,307
Adjusted for inflation (thousands of 1999 dollars):						
Personal income	5,203	6,022	6,100	6,684	7,374	95,816
Gross state revenue	416	482	488	535	590	7,665
MEGA cost	0	123	115	126	133	1,712
State revenue net of MEGA cost*	416	359	373	409	457	5,953

*These estimates do not include any state government revenue losses due to the Investment Tax Credit.