

**The Economic Effects on Michigan
of the Lacks Industries, Inc. Facility Expansion Decision**

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Abstract

Lacks Industries, Inc. is considering expanding and building new facilities in a campus setting in Michigan that will involve injection molding, electroplating, and assembly and distribution activities. By 1999, the facility would employ 200 people. We estimate that by 2016, this expansion will have generated a total of 545 jobs in the state. Total state government revenues through 2016, net of MEGA costs and adjusted for inflation, would be increased by \$24,653,000 (1996 dollars) due to the expansion of Lacks Industries, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Lacks Industries, Inc.'s expanding and building new facilities in a campus setting in Michigan that will involve injection molding, electroplating, and assembly and distribution activities (SIC 3089). Construction activity would take place between 1996 and 1998, with an investment of \$37.8 million, and production would begin in July 1997. The facility would employ 200 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 2016, are shown in the attached table. The MEGA incentive package includes relief from 50 percent of the single business tax for the period 1997-2006 and a tax credit to the company for the period 1997-2016 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 is expected to generate a total of 216 jobs in 1996, 219 jobs in 1997, and 9 jobs in 1998; almost all of these jobs are temporary. In 1999, the first year of full production, an additional 456 jobs are generated in the state. We estimate that by 2016 this facility will have generated a total of 545 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 2.4 over the period 1999-2016. 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 Lacks Industries, Inc. were to expand in Michigan under the incentive program, state personal income in 1999 would be higher by \$19.4 million (in current dollars) than it would be without the facility, and in 2016 it would be \$43.7 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$15.4 million in 1999 and \$23.7 million in 2016.

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 \$1,552,000 in additional gross state government revenue, and that the MEGA package would provide a \$392,000 incentive to Lacks Industries, Inc. Thus, the Lacks Industries, Inc. facility would generate an additional \$1,160,000 in revenue to state government in 1999, net of MEGA incentive costs.

Over the period 1996-2016, gross state government revenue is projected to increase by \$46,304,000 (in current dollars) due to the expansion of Lacks Industries, Inc. The MEGA incentive package for Lacks Industries, Inc. is forecast to cost \$7,393,000 over the period, resulting in a net increase in state government revenue of \$38,911,000. Adjusted for inflation, the total net increase in state government revenue from 1996 to 2016 would be \$24,653,000 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 Lacks Industries, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1996	1997	1998	1999	2000	2005	2010	2016	Total 1996-2016
Total Employment	216	245	310	456	454	455	495	545	—
Manufacturing	14	44	140	221	216	206	210	216	—
Nonmanufacturing	202	201	170	235	238	249	285	329	—
Retail Trade	23	24	36	52	51	49	55	63	—
Services	45	46	72	98	97	99	116	142	—
Other	134	131	62	85	90	101	114	124	—
In current dollars (thousands):									
Personal income	7,900	10,200	13,100	19,400	21,000	26,300	33,300	43,700	578,800
Gross state revenue	632	816	1,048	1,552	1,680	2,104	2,664	3,496	46,304
MEGA cost	0	28	134	392	426	508	329	411	7,393
State revenue net of MEGA cost	632	788	914	1,160	1,254	1,596	2,335	3,085	38,911
Adjusted for inflation (thousands of 1996 dollars):									
Personal income	7,900	8,912	10,749	15,430	15,798	17,954	20,857	23,723	377,326
Gross state revenue	632	713	860	1,234	1,264	1,436	1,669	1,898	30,186
MEGA cost	0	27	126	360	382	397	224	236	5,533
State revenue net of MEGA cost	632	686	734	874	882	1,039	1,445	1,662	24,653