

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

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Abstract

Lacks Enterprises, Inc., a privately owned global manufacturer, is a leading supplier to the automotive, telecommunications, and consumer electronics markets. Lacks is proposing expansion of its operations in the city of Kentwood, resulting in the construction of a new plating facility, new distribution center, new molding facility, and additions to molding and assembly operations. The facilities would employ an additional 424 people by 2010. We estimate that by 2011, this expansion will have generated a total of 816 jobs in the state. Total state government revenues through 2011, net of MEGA costs and adjusted for inflation, would increase by \$14,485,000 (2004 dollars) due to the expansion of Lacks Enterprises, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if Lacks Enterprises, Inc., a privately owned global manufacturer and leading supplier to the automotive, telecommunications, and consumer electronics markets, expands its operations in the city of Kentwood, Michigan (SIC 3079). The expansion will result in the construction of a new plating facility, new distribution center, new molding facility, and additions to molding and assembly operations. Investment activity would take place between 2005 and 2009, with an investment of \$52.9 million. The facilities would employ an additional 424 people by 2010.

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 2005 to 2011, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2006 to 2011 equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facilities 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 facilities themselves 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 115 jobs in 2005, 76 jobs in 2006, 141 jobs in 2007, 68 jobs in 2008, and 63 jobs in 2009; almost all of these jobs are temporary. In 2010, the first year of full operations, an additional 842 jobs are generated in the state. We estimate that by 2011, this expansion will have generated a total of 816 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 2.0 over the period 2010 to 2011. 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 Enterprises, Inc., were to expand its operations in Michigan under the incentive program, state personal income in 2010 would be higher by \$59.7 million (in current dollars) than it would be without the expansion, and in 2011 it would be \$60.8 million higher. Adjusted for inflation, these numbers in 2004 dollars would be \$40.5 million both in 2010 and in 2011.

The gain in economic activity results in higher state government revenues. We estimate that in 2010, the first year of full operations, the expanded facilities would generate \$4,591,000 in additional gross state government revenue, and that the MEGA package would provide a \$735,000 incentive to Lacks Enterprises, Inc. Thus, the Lacks Enterprises, Inc., expansion would increase state government revenues in 2010 by \$3,856,000, net of MEGA incentive costs.

Over the period 2005 to 2011, gross state government revenue is projected to increase by \$24,131,000 (in current dollars) due to the expansion of Lacks Enterprises, Inc. The MEGA incentive package for Lacks Enterprises, Inc., is forecast to cost \$3,579,000 over the period, resulting in a net increase in state government revenue of \$20,552,000. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2011 would be \$14,485,000 in 2004 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 Lacks Enterprises, Inc., Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2011	Total 2005-2011
Total Employment	115	489	845	905	903	842	816	—
Manufacturing	10	205	346	413	420	437	432	—
Nonmanufacturing	105	284	499	492	483	405	384	—
Retail Trade	14	58	97	103	100	91	86	—
Services	26	93	152	159	147	130	121	—
Other	65	133	250	230	236	184	177	—
In current dollars (thousands):								
Personal income	5,700	25,300	47,100	55,500	59,700	59,700	60,800	313,800
Gross state revenue	438	1,946	3,622	4,268	4,591	4,591	4,676	24,131
MEGA cost	0	279	498	624	672	735	770	3,579
State revenue net of MEGA cost*	438	1,667	3,124	3,644	3,919	3,856	3,906	20,552
Adjusted for inflation (thousands of 2004 dollars):								
Personal income	4,556	19,559	35,009	39,638	41,216	40,500	40,486	220,965
Gross state revenue	350	1,504	2,692	3,048	3,169	3,115	3,113	16,992
MEGA cost	0	216	370	446	464	499	513	2,507
State revenue net of MEGA cost*	350	1,288	2,322	2,602	2,705	2,616	2,600	14,485

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