

**The Economic Effects on Michigan
of the Meridian Plant Expansion Decision**

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Abstract

Meridian, Inc. is considering expanding its filing systems and free-standing office furniture plant in Michigan, which by 1999 would employ 500 people. We estimate that by 2017, this facility will have generated a total of 1,471 jobs in the state. Total state government revenues through 2017, net of MEGA costs and adjusted for inflation, would be increased by \$68,634,000 (1995 dollars) due to the expansion of the Meridian, Inc. plant.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of the Meridian company's expanding a filing systems and free-standing office furniture plant (SIC 2522) in the state. A new facility would be built between 1995 and 1997, with an investment of \$24 million, and would begin production in early 1997. The facility would employ 500 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 1995 to 2017, are shown in the attached table. The MEGA incentive package includes relief from the single business tax for the period 1998-2012 and a tax credit to the company equal to the income tax withheld from the plant's employees for the period 1998-2017.

The total employment effects, reported in the first line of the table, include the direct jobs created at the plant 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 23 jobs in 1995, 139 in 1996, and 124 in 1997; almost all of these jobs are temporary. In 1999, the first year of full production, an additional 1,159 jobs are generated in the state. We estimate that by 2017, this facility will have generated a total of 1,471 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 activity ranges from 2.3 to 2.9 over the period 1999-2017. 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 the facility were to expand in Michigan under the incentive program, state personal income in 1999 would be higher by \$54.6 million (in current dollars) than it would be without the facility, and in 2017 it would be \$159.2 million higher. Adjusted for inflation, these numbers in 1995 dollars would be \$39.1 million in 1999 and \$63.6 million in 2017.

The gain in economic activity results in higher state government revenues. In 1995, the construction of the plant and investment in machinery and equipment would generate \$64,000 (in current dollars) in additional gross state revenue. Since there are no MEGA incentives offered to the construction companies, these values are also the impact on net state revenue. We estimate that the additional economic activity resulting from the operation of this plant and the investment in machinery and equipment would generate \$416,000 in additional gross state government revenue in 1996 and \$1,696,000 in 1997. We estimate that in 1999, the first year of full production, the operation of the plant would generate \$4,368,000 in additional gross state government revenue, and that the MEGA package would provide a \$448,000 incentive to Meridian. Thus, the Meridian facility would generate an additional \$3,920,000 in revenue to state government in 1999, net of MEGA incentive costs.

Over the period 1995-2017, gross state government revenue is projected to increase by \$160,536,000 (in current dollars) due to the expansion of the Meridian plant. The MEGA incentive package for Meridian is forecast to cost \$24,630,000 over the period, resulting in a net increase in state government revenue of \$135,906,000. Adjusted for inflation, the total net increase in state government revenue from 1995 to 2017 would be \$68,634,000 in 1995 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 Meridian Plant Expansion Decision
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	1995	1996	1997	1998	1999	2000	2005	2010	2017	Total 1995-2017
Total employment	23	139	532	861	1,159	1,184	1,217	1,331	1,471	—
Manufacturing	1	4	194	391	544	536	515	529	547	—
Nonmanufacturing	22	135	338	470	615	648	702	802	924	—
Retail trade	2	15	72	103	135	138	136	155	180	—
Services	4	26	136	208	265	273	278	321	377	—
Other	16	94	130	159	215	237	288	326	367	—
In current dollars (thousands):										
Personal income	800	5,200	21,200	37,300	54,600	61,500	82,900	109,900	159,200	2,006,700
Gross state revenue	64	416	1,696	2,984	4,368	4,920	6,632	8,792	12,736	160,536
MEGA cost*	0	0	0	290	448	1,141	1,377	1,661	1,123	24,630
State revenue net of MEGA cost	64	416	1,696	2,694	3,920	3,779	5,255	7,131	11,613	135,906
Adjusted for inflation (thousands of 1995 dollars):										
Personal income	800	3,373	18,031	26,937	39,078	40,134	48,157	55,375	63,586	1,046,343
Gross state revenue	64	270	1,443	2,155	3,126	3,211	3,852	4,430	5,087	83,707
MEGA cost*	0	0	0	258	383	940	932	924	475	15,073
State revenue net of MEGA cost	64	270	1,443	1,897	2,743	2,271	2,920	3,506	4,612	68,634

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