

**The Economic Effects on Michigan of the
Michigan Packaging Company Retention**

Prepared by the Michigan Economic Development Corporation utilizing Regional
Economic Models, Incorporated (REMI) software.

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Abstract

Michigan Packaging Company operates a corrugated paper manufacturing facility in Mason, Michigan. The company has considered closing the Mason facility and relocating and expanding in Fort Wayne, Indiana. The facility current employs 105 people. We estimate that by 2014, this location will have retained a total of 227 jobs in the state. \$10.5 million (2004 dollars) of total state government revenues through 2014, net of MEGA costs and adjusted for inflation, will be received due to the retention of the Michigan Packaging Company.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of retaining the Michigan Packaging Company manufacturing facility in Mason. Investment activity would take place in 2005 with an investment of \$16.3 million. The facility would retain 105 people.

The estimates of the benefits attributable to the project include the total number of jobs retained and 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 2014, are shown in the attached table. The MEGA incentive package includes a tax credit to the company equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees retained at the facility for the period 2005 to 2014.

The total employment effects, reported in the first line of the table, include the direct jobs retained at the facility itself plus spin-off jobs. The spin-off jobs are created from two sources, purchases from Michigan suppliers and spending by people who receive income due to the economic activity. The total number of jobs (direct plus spin-off) for every direct job introduced constitutes the "employment multiplier." The employment multiplier for the retention averages 2.5 over the period 2005 to 2014. Sectoral detail on the employment 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 Michigan Packaging Company were to remain in Michigan under the incentive program, state personal income in 2005 would be higher by \$17.1 million (in current dollars) than it would be without the facility, and in 2014, it would be \$19.6 million higher. Adjusted for inflation, these numbers in 2004 dollars would be \$16.8 million in 2005 and \$16.6 million in 2014.

The economic activity results in government revenues. We estimate that in 2006, the first year of full operations without investment activity, the facility would generate \$1.2 million in gross state revenue, and that the MEGA package would provide a \$196,000 incentive to Michigan Packaging Company. Thus, the new Michigan Packaging

Company facility would maintain \$984,000 of state revenues in 2006, net of MEGA costs.

Over the period 2005 to 2014 the project is projected to maintain state government revenue of \$13.5 million (in current dollars) through the retention of the Michigan Packaging Company facility. The MEGA incentive package for Michigan Packaging Company is forecast to cost \$2 million over the period, resulting in a net increase in state government revenue of \$11.5 million. Adjusted for inflation, the total impact on state government revenue from 2005 to 2014 would be \$10.5 million in 2004 dollars. These calculations do not include any revenue losses due to the property tax abatement or the investment tax credit. If the costs of the abatement and the tax credit were included, the net revenue gain to state government would be slightly less.

None of the 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.

**Michigan Packaging Company
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Direct Jobs	105	105	105	105	105	105	105	105	105	105	
Employment Retained (Loss Avoided)											
Manufacturing	302	289	277	267	257	248	241	237	233	228	
Non-Manufacturing	124	108	105	104	102	101	100	99	99	98	
Retail Trade	243	179	170	161	153	145	140	137	133	129	
Services	56	45	43	41	39	36	36	35	34	34	
Other	101	76	72	68	66	62	61	59	59	58	
	86	58	55	52	48	47	43	43	40	37	
Employment Multiplier											2.50
Personal Income & Revenue Impact Thousands of Current Dollars											
Personal Income	\$17,118	\$15,322	\$16,141	\$16,660	\$17,119	\$17,519	\$18,069	\$18,589	\$19,078	\$19,589	\$175,204
Gross State Revenue	1,319	1,180	1,243	1,283	1,318	1,349	1,392	1,431	1,469	1,509	13,493
Mega Cost	167	196	191	200	200	200	200	200	201	201	1,957
State Revenue Net of MEGA Cost*	\$1,152	\$984	\$1,052	\$1,083	\$1,118	\$1,149	\$1,192	\$1,231	\$1,268	\$1,308	\$11,536
Thousands of 2004 Dollars (Inflation Adjusted)											
Personal Income	\$16,846	\$14,834	\$15,372	\$15,604	\$15,769	\$15,869	\$16,100	\$16,292	\$16,441	\$16,595	\$159,722
Gross State Revenue	1,299	1,143	1,184	1,202	1,214	1,221	1,240	1,255	1,266	1,278	12,302
Mega Cost	165	190	182	187	184	181	178	176	173	170	1,786
State Revenue Net of MEGA Cost*	\$1,134	\$953	\$1,002	\$1,015	\$1,030	\$1,040	\$1,062	\$1,079	\$1,093	\$1,108	\$10,516

* These estimates do not include any state government revenue losses due to the Investment Tax Credit, the Renaissance Zone Credit or the property tax abatement.