

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

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Abstract

Packerland, Inc. is considering expanding its operations in Michigan by purchasing an existing meatpacking facility in the state and renovating it to increase production and employment. The renovated facility would employ 300 people by 2002. We estimate that by 2020, this expansion will have generated a total of 703 jobs in the state. Total state government revenues through 2020, net of MEGA costs and adjusted for inflation, would increase by \$48,945,000 (1998 dollars) due to the expansion of Packerland, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Packerland, Inc. expanding its operations in Michigan by purchasing an existing meatpacking facility in the state and renovating it to increase production and employment (SIC 2011). Investment activity would take place between 1999 and 2000, with an investment of \$1.5 million, and production would begin in March 2000. The new facility would employ 300 people by 2002.

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 1999 to 2020, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2001 to 2020 equal to 4.4 percent of the payroll (gross wages) of employees hired at the facility as a result of the expansion. 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 6 jobs in 1999 and 6 jobs in 2000; almost all of these jobs are temporary. In 2002, the first year of full operations, an additional 735 jobs are generated in the state. We estimate that by 2020, this facility addition will have generated a total of 703 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 2.2 over the period 2002 to 2020. 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 Packerland, Inc. were to expand in Michigan under the incentive program, state personal income in 2002 would be higher by \$40.8 million (in current dollars) than it would be without the facility, and in 2020 it would be \$82.7 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$31.1 million in 2002 and \$40.0 million in 2020.

The gain in economic activity results in higher state government revenues. We estimate that in 2002, the first year of full operations, the facility would generate \$3,264,000 in additional gross state government revenue, and that the MEGA package would provide a \$353,000 incentive to Packerland, Inc. Thus, the Packerland, Inc. facility expansion would increase state government revenues in 2002 by \$2,911,000, net of MEGA incentive costs.

Over the period 1999 to 2020, gross state government revenue is projected to increase by \$92,456,000 (in current dollars) due to the expansion of Packerland, Inc. The MEGA incentive package for Packerland, Inc. is forecast to cost \$9,515,000 over the period, resulting in a net increase in state government revenue of \$82,941,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2020 would be \$48,945,000 in 1998 dollars. These calculations do not include any revenue losses due to the property tax abatement or the Capital Acquisition Deduction. If the cost of the abatement or the CAD 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 Packerland, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2005	2010	2015	2020	Total 1999-2020
Total Employment	129	377	735	668	644	685	703	—
Manufacturing	56	170	332	314	309	318	312	—
Nonmanufacturing	73	207	403	354	335	367	391	—
Retail Trade	18	53	103	85	75	78	80	—
Services	26	75	146	118	113	135	158	—
Other	29	79	154	151	147	154	153	—
In current dollars (thousands):								
Personal income	6,300	19,700	40,800	46,800	55,100	68,600	82,700	1,155,700
Gross state revenue	504	1,576	3,264	3,744	4,408	5,488	6,616	92,456
MEGA cost	0	168	353	391	463	555	670	9,515
State revenue net of MEGA cost*	504	1,408	2,911	3,353	3,945	4,933	5,946	82,941
Adjusted for inflation (thousands of 1998 dollars):								
Personal income	5,107	15,593	31,065	31,619	33,594	37,463	39,987	682,018
Gross state revenue	409	1,247	2,485	2,530	2,687	2,997	3,199	54,561
MEGA cost	0	133	268	264	282	303	324	5,616
State revenue net of MEGA cost*	409	1,114	2,217	2,266	2,405	2,694	2,875	48,945

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