

**The Economic Effects on Michigan of the
Nicholas Plastics, Inc. Expansion**

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

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Abstract

Nicholas Plastics Inc. is considering expanding a facility in Allendale Township, Michigan. This facility would produce thermoformed automotive parts. The new facility would employ up to 250 people by the end of 2010. We estimate that by 2017, this location will have generated a total of 374 jobs in the state. Total state government revenues through 2017, net of MEGA costs and adjusted for inflation, would increase by \$13.87 million (2004 dollars) due to the location of the expansion.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Nicholas Plastics Inc. expanding a manufacturing facility in Allendale Township. Investment activity would take place in 2005 with an investment of \$18.0 million. The facility would employ an additional 250 people and would be at full production by 2010.

The estimates of the benefits attributable to the project 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 2017, 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 hired at the facility for the period 2006 to 2017.

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 created from two sources, increased purchases from Michigan suppliers and spending by people who receive income due to the increased economic activity. In 2010, the first year of full operations, an additional 389 jobs are generated in the state. The total number of jobs (direct plus spin-off) for every direct job introduced constitutes the "employment multiplier." The employment multiplier for the expansion averages 1.3 over the period 2005 to 2017. 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 Nicholas Plastics Inc. were to locate in Michigan under the incentive program, state personal income in 2010 would be higher by \$21.6 million (in current dollars) than it would be without the facility, and in 2017, it would be \$29.79 million higher. Adjusted for inflation, these numbers in 2004 dollars would be \$19.59 million in 2010 and \$23.97 million in 2017.

The gain in economic activity results in higher government revenues. We estimate that in 2006, the first year of full operations without investment activity, the facility would

generate \$491,000 in additional gross state revenue, and that the MEGA package would provide a \$99,000 incentive to Nicholas Plastics Inc. Thus, the new Nicholas Plastics Inc. facility would increase state revenues in 2006 by \$392,000, net of MEGA costs.

Over the period 2005 to 2017 state government revenue is projected to increase by \$20.25 million (in current dollars) due to the new Nicholas Plastics Inc. facility. The MEGA incentive package for Nicholas Plastics Inc. is forecast to cost \$4.34 million over the period, resulting in a net increase in state government revenue of \$15.9 million. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2017 would be \$13.87 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.

Nicholas Plastics, Inc.
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2015	2017	Total
Total Employment	141	144	227	313	359	389	373	374	
Manufacturing	10	71	134	180	207	225	223	223	
Non-Manufacturing	131	73	93	133	152	164	150	151	
Retail Trade	21	19	27	37	42	45	41	41	
Services	41	36	39	57	66	72	68	69	
Other	69	18	27	39	44	47	41	41	
In Current Dollars (Thousands):									
Personal Income	\$5,890	\$6,378	\$10,590	\$15,290	\$18,800	\$21,610	\$27,470	\$29,790	\$262,988
Gross State Revenue	454	491	815	1,177	1,448	1,664	2,115	2,294	20,250
Mega Cost	0	99	208	281	328	363	456	506	4,344
State Revenue Net of MEGA Cost*	\$454	\$392	\$607	\$896	\$1,120	\$1,301	\$1,659	\$1,788	\$15,906
Adjusted for Inflation (Thousands of 2004 Dollars):									
Personal Income	\$5,796	\$6,175	\$10,088	\$14,325	\$17,324	\$19,586	\$22,879	\$23,967	\$229,166
Gross State Revenue	447	475	776	1,103	1,334	1,508	1,762	1,846	17,647
Mega Cost	0	95	198	263	302	329	380	407	3,777
State Revenue Net of MEGA Cost*	\$447	\$380	\$578	\$840	\$1,032	\$1,179	\$1,382	\$1,439	\$13,870

* 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.