

**The Economic Effects on Michigan
of the P & A Industries, Inc., Facility Expansion Decision**

**George A. Fulton
Peter Nicolas
Donald R. Grimes**

**University of Michigan
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Abstract

P & A Industries, Inc., a metal-stamping enterprise headquartered in Monroe Township, Michigan, is considering expanding its headquarters, research and development and prototyping capabilities by building a new headquarters/technical center facility. The new facility would employ 130 additional people by 2002. We estimate that by 2014, this expansion will have generated a total of 186 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by \$8,831,000 (1998 dollars) due to the expansion of P & A Industries, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of the proposed expansion by P & A Industries, Inc.—a metal-stamping enterprise headquartered in Monroe Township, Michigan—of its headquarters, research and development and prototyping capabilities by building a new headquarters/technical center facility (SIC 3460). Investment activity would take place in 1999, with an investment of \$8.151 million, and production would begin in December 1999. The new facility would employ 130 additional 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 2014, are shown in the attached table. The MEGA incentive package includes relief from 75 percent of the single business tax for the period 2000 to 2003, and a tax credit to the company for the period 2000 to 2014 equal to 3.3 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 75 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 125 jobs in 1999; almost all of these jobs are temporary. In 2002, the first year of full operations, an additional 211 jobs are generated in the state. We estimate that by 2014, this facility will have generated a total of 186 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 1.4 over the period 2002 to 2014. 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 P & A Industries, Inc., were to expand in Michigan under the incentive program, state personal income in 2002 would be higher by \$12.3 million (in current dollars) than it would be without the facility, and in 2014 it would be \$19.5 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$8.7 million in 2002 and \$10.3 million in 2014.

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 \$984,000 in additional gross state government revenue, and that the MEGA package would provide a \$242,000 incentive to P & A Industries, Inc. Thus, the P & A Industries, Inc., facility expansion would increase state government revenues in 2002 by \$742,000, net of MEGA incentive costs.

Over the period 1999 to 2014, gross state government revenue is projected to increase by \$17,896,000 (in current dollars) due to the expansion of P & A Industries, Inc. The MEGA incentive package for P & A Industries, Inc., is forecast to cost \$3,421,000 over the period, resulting in a net increase in state government revenue of \$14,475,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2014 would be \$8,831,000 in 1998 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 P & A Industries, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2002	2005	2010	2014	Total 1999-2014
Total Employment	125	135	183	211	188	179	186	—
Manufacturing	5	80	110	130	130	130	130	—
Nonmanufacturing	120	55	73	81	58	49	56	—
Retail Trade	15	17	23	27	22	20	21	—
Services	25	23	31	33	22	17	19	—
Other	80	15	19	21	14	12	16	—
In current dollars (thousands):								
Personal income	4,900	6,700	9,700	12,300	13,900	16,500	19,500	223,700
Gross state revenue	392	536	776	984	1,112	1,320	1,560	17,896
MEGA cost	0	135	204	242	204	242	279	3,421
State revenue net of MEGA cost*	392	401	572	742	908	1,078	1,281	14,475
Adjusted for inflation (thousands of 1998 dollars):								
Personal income	3,900	4,835	7,019	8,703	8,816	9,518	10,267	136,615
Gross state revenue	312	387	562	696	705	761	821	10,929
MEGA cost	0	98	148	171	129	139	147	2,098
State revenue net of MEGA cost*	312	289	414	525	576	622	674	8,831

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