

**The Economic Effects on Michigan of the
Parker Hannifin Corporation Facility Expansion Decision**

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Abstract

Parker Hannifin Corporation is considering expanding its existing Pneumatic Division facility in Richland Township (Kalamazoo) by constructing a new 50,000 square foot facility to consolidate functions currently undertaken at three different facilities across the United States. The new facility would employ an additional 81 people by 2001. We estimate that by 2008, this expansion will have generated a total of 160 jobs in the state. Total state government revenues through 2008, net of MEGA costs and adjusted for inflation, would increase by \$3,861,000 (2000 dollars) due to the expansion of Parker Hannifin Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Parker Hannifin Corporation expanding its existing Pneumatic Division facility in Richland Township (Kalamazoo) by constructing a new 50,000 square foot facility to consolidate functions currently undertaken at three different facilities across the United States (SIC 349). Investment activity would take place between 2001 and 2005, with an investment of \$21.8 million. The facility would employ an additional 81 people by 2001.

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 2001 to 2008, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2002 to 2008; it also includes a tax credit to the company for the same period equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility as a result of the project.

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 activity is expected to generate a total of 38 jobs in 2001, 5 jobs in 2002, and 4 jobs in 2003 through 2005; almost all of these jobs are temporary. In 2004, an additional 171 jobs are generated in the state. We estimate that by 2008, this expansion will have generated a total of 160 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 2.0 over the period 2004 to 2008. 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 Parker Hannifin Corporation were to expand in Michigan under the incentive program, state personal income in 2004 would be higher by \$10.8 million (in current dollars) than it would be without the facility, and in 2008 it would be \$11.5 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$7.93 million in 2004 and \$8.06 million in 2008.

The gain in economic activity results in higher state government revenues. We estimate that in 2004, the facility would generate \$864,000 in additional gross state government revenue, and that the MEGA package would provide a \$286,000 incentive to Parker Hannifin Corporation. Thus, the Parker Hannifin Corporation facility expansion would increase state government revenues in 2004 by \$578,000, net of MEGA incentive costs.

Over the period 2001 to 2008, gross state government revenue is projected to increase by \$7,264,000 (in current dollars) due to the expansion of Parker Hannifin Corporation. The MEGA incentive package for Parker Hannifin Corporation is forecast to cost \$2,028,000 over the period, resulting in a net increase in state government revenue of \$5,236,000. Adjusted for inflation, the total net increase in state government revenue from 2001 to 2008 would be \$3,861,000 in 2000 dollars. These calculations do not include any revenue losses due to the investment tax credit or the property tax abatement. If the costs of the tax credit or the tax 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 Parker Hannifin Corporation Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2001	2002	2003	2004	2005	2008	Total 2001-2008
Total Employment	326	187	178	171	167	160	—
Manufacturing	94	89	87	85	84	82	—
Nonmanufacturing	232	98	91	86	83	78	—
Retail Trade	37	23	22	20	19	17	—
Services	53	35	32	30	28	26	—
Other	142	40	37	36	36	35	—
In current dollars (thousands):							
Personal income	14,600	10,500	10,500	10,800	11,000	11,500	90,800
Gross state revenue	1,168	840	840	864	880	920	7,264
MEGA cost	0	259	276	286	300	300	2,028
State revenue net of MEGA cost*	1,168	581	564	578	580	620	5,236
Adjusted for inflation (thousands of 2000 dollars):							
Personal income	11,654	7,882	7,653	7,929	7,878	8,062	66,483
Gross state revenue	932	631	612	634	630	645	5,319
MEGA cost	0	194	201	210	215	210	1,458
State revenue net of MEGA cost*	932	437	411	424	415	435	3,861

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