

**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 facilities in Otsego, Michigan to increase production at both its Brass Products and Pump/Motor divisions. The expanded facility would employ 87 additional people by 2004. We estimate that by 2011, this expansion will have generated a total of 142 jobs in the state. Total state government revenues through 2011, net of MEGA costs and adjusted for inflation, would increase by \$5,166,000 (1999 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 facilities in Otsego, Michigan to increase production at both its Brass Products and Pump/Motor divisions (SIC 3490). Investment activity would take place between 1999 and 2003, with an investment of \$21.5 million, and production would begin in January 2000. The new facility would employ 87 people by 2004.

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 2011, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2002 to 2011 equal to the state income tax rate on the payroll (gross wages) of employees hired at the facility as a result of the project. 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 activity is expected to generate a total of 12 jobs in 1999, 106 jobs in 2000, 4 jobs in 2001, 11 jobs in 2002, and 6 jobs in 2003; almost all of these jobs are temporary. In 2004, the first year of full operations, an additional 137 jobs are generated in the state. We estimate that by 2011, this expansion will have generated a total of 142 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 1.6 over the period 2004 to 2011. 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 \$8.7 million (in current dollars) than it would be without the facility, and in 2011 it would be \$11.7 million higher. Adjusted for inflation, these numbers in 1999 dollars would be \$6.3 million in 2004 and \$7.6 million in 2011.

The gain in economic activity results in higher state government revenues. We estimate that in 2004, the first year of full operations, the facility would generate \$696,000 in additional gross state government revenue, and that the MEGA package would provide a \$145,000 incentive to Parker Hannifin Corporation. Thus, the Parker Hannifin Corporation facility expansion would increase state government revenues in 2004 by \$551,000, net of MEGA incentive costs.

Over the period 1999 to 2011, gross state government revenue is projected to increase by \$8,696,000 (in current dollars) due to the expansion of Parker Hannifin Corporation. The MEGA incentive package for Parker Hannifin Corporation is forecast to cost \$1,579,000 over the period, resulting in a net increase in state government revenue of \$7,117,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2011 would be \$5,166,000 in 1999 dollars. These calculations do not include any revenue losses due to the property tax abatement or the investment tax credit. If the cost of the abatement and the tax credit 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	1999	2000	2001	2002	2003	2004	2005	2010	2011	Total 1999-2011
Total Employment	12	153	85	142	141	137	136	140	142	—
Manufacturing	0	41	51	79	82	87	87	87	87	—
Nonmanufacturing	12	112	34	63	59	50	49	53	55	—
Retail Trade	1	18	10	16	15	14	14	13	13	—
Services	2	29	13	21	19	16	15	17	18	—
Other	9	65	11	26	25	20	20	23	24	—
In current dollars (thousands):										
Personal income	500	6,800	4,800	7,800	8,400	8,700	9,000	11,000	11,700	108,700
Gross state revenue	40	544	384	624	672	696	720	880	936	8,696
MEGA cost	0	0	0	126	143	145	150	178	184	1,579
State revenue net of MEGA cost*	40	544	384	498	529	551	570	702	752	7,117
Adjusted for inflation (thousands of 1999 dollars):										
Personal income	500	5,723	3,888	6,311	6,451	6,314	6,580	7,306	7,589	78,567
Gross state revenue	40	458	311	505	516	505	527	584	607	6,286
MEGA cost	0	0	0	102	110	105	110	118	119	1,120
State revenue net of MEGA cost*	40	458	311	403	406	400	417	466	488	5,166

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