

**The Economic Effects on Michigan of the
Perrigo Research and Development Company**

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

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Abstract

Perrigo Research and Development Company is considering building a research and development facility in Allegan, Michigan. This facility would develop new over-the-counter pharmaceutical products. The new facility would employ up to 25 people by the end of 2007. We estimate that by 2012, this location will have generated a total of 31 jobs in the state. Total state government revenues through 2012, net of MEGA costs and adjusted for inflation, would increase by \$1,238,000 (2002 dollars) due to the location of the facility.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Perrigo Research and Development Company locating a research and development facility in Allegan. Investment activity would take place in 2003 with an investment of \$1.6 million. The facility would employ an additional 25 people and would be at full production by 2007.

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 2003 to 2012, 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 2003 to 2012.

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 2007, the first year of full operations, an additional 39 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 1.24 over the period 2003 to 2012. 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 Perrigo Research and Development Company were to locate in Michigan under the incentive program, state personal income in 2007 would be higher by \$2.65 million (in current dollars) than it would be without the facility, and in 2012, it would be \$3.08 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$2.41 million in 2007 and \$2.51 million in 2012.

The gain in economic activity results in higher government revenues. We estimate that in 2004, the first year of full operations without investment activity, the facility would

generate \$78,000 in additional gross state revenue, and that the MEGA package would provide a \$19,000 to Perrigo Research and Development Company. Thus, the new research facility would increase state revenues in 2004 by \$59,000, net of MEGA costs.

Over the period 2003 to 2012 state government revenue is projected to increase by \$1.85 million (in current dollars) due to the new research facility. The MEGA incentive package for Perrigo Research and Development Company is forecast to cost \$452,000 million over the period, resulting in a net increase in state government revenue of \$1.4 million. Adjusted for inflation, the total net increase in state government revenue from 2003 to 2012 would be \$1.24 million in 2002 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.

**Perrigo Research and Development Company
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2003	2004	2005	2006	2007	2008	2010	2012	Total
Total Employment	29	18	26	34	39	38	34	31	
Manufacturing	1	0	0	0	(1)	(1)	(2)	(2)	
Non-Manufacturing	28	18	26	34	40	39	36	33	
Retail Trade	3	2	2	3	4	4	3	3	
Services	11	13	20	26	32	31	30	28	
Other	14	3	4	5	4	4	3	2	
In Current Dollars (Thousands):									
Personal Income	\$1,404	\$977	\$1,495	\$2,014	\$2,655	\$2,747	\$2,899	\$3,082	\$23,163
Gross State Revenue	112	78	120	161	212	220	232	247	1,853
Mega Cost	9	19	30	41	53	55	60	65	452
State Revenue Net of MEGA Cost*	\$103	\$59	\$90	\$120	\$159	\$165	\$172	\$183	\$1,402
Adjusted for Inflation (Thousands of 2002 Dollars):									
Personal Income	\$1,377	\$940	\$1,409	\$1,862	\$2,406	\$2,441	\$2,467	\$2,508	\$20,423
Gross State Revenue	110	75	113	149	192	195	197	201	1,633
Mega Cost	9	18	28	38	48	49	51	52	395
State Revenue Net of MEGA Cost*	\$101	\$57	\$85	\$111	\$144	\$146	\$146	\$149	\$1,238

* 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.