

**The Economic Effects on Michigan
of the Petri, Inc. Facility Expansion Decision**

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June 11, 1996**

Abstract

Petri, Inc. is considering constructing a new facility to produce steering wheels, air bag actuators called "clock springs", and air bag covers for foreign and domestic automobile and truck assemblers. By 1999, the facility would employ 396 people. We estimate that by 2006, this location will have generated a total of 1,252 jobs in the state. Total state government revenues through 2006, net of MEGA costs and adjusted for inflation, would be increased by \$25,439,000 (1996 dollars) due to the location of Petri, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Petri, Inc.'s constructing a new facility to produce steering wheels, air bag actuators called "clock springs", and air bag covers for foreign and domestic automobile and truck assemblers (SIC 3714). Construction activity would take place between 1996 and 1999, with an investment of \$10.7 million, and production would begin in February 1997. The facility would employ 396 workers by 1999.

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 1996 to 2006, are shown in the attached table. The MEGA incentive package includes relief from 50 percent of the single business tax for the period 1997-2006 and a tax credit to the company for the period 1997-2006 equal to 4.4 percent of 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 of the facility is expected to generate a total of 30 jobs in 1996, 19 jobs in 1997, 9 jobs in 1998, and 16 jobs in 1999; almost all of these jobs are temporary. In 1999, the first year of full production, an additional 1,205 jobs are generated in the state. We estimate that by 2006 this facility will have generated a total of 1,252 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 location averages 3.1 over the period 1999-2006. 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 Petri, Inc. were to locate in Michigan under the incentive program, state personal income in 1999 would be higher by \$51.9 million (in current dollars) than it would be without the facility, and in 2006 it would be \$80.3 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$40 million in 1999 and \$51.5 million in 2006.

The gain in economic activity results in higher state government revenues. We estimate that in 1999, the first year of full production, the operation of the facility would generate \$4,152,000 in additional gross state government revenue, and that the MEGA package would provide a \$778,000 incentive to Petri, Inc. Thus, the Petri, Inc. facility would generate an additional \$3,374,000 in revenue to state government in 1999, net of MEGA incentive costs.

Over the period 1996-2006, gross state government revenue is projected to increase by \$46,088,000 (in current dollars) due to the location of Petri, Inc. The MEGA incentive package for Petri, Inc. is forecast to cost \$7,522,000 over the period, resulting in a net increase in state government revenue of \$38,566,000. Adjusted for inflation, the total net increase in state government revenue from 1996 to 2006 would be \$25,439,000 in 1996 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 Petri, Inc. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1996	1997	1998	1999	2000	2006	Total 1996-2006
Total Employment	30	278	656	1,205	1,211	1,252	—
Manufacturing	1	117	274	493	476	441	—
Nonmanufacturing	29	161	382	712	735	811	—
Retail Trade	3	35	85	156	157	160	—
Services	6	68	159	295	296	318	—
Other	20	58	138	261	282	333	—
In current dollars (thousands):							
Personal income	1,100	10,600	26,600	51,900	58,200	80,300	576,100
Gross state revenue	88	848	2,128	4,152	4,656	6,424	46,088
MEGA cost	0	112	404	778	804	982	7,522
State revenue net of MEGA cost	88	736	1,724	3,374	3,852	5,442	38,566
Adjusted for inflation (thousands of 1996 dollars):							
Personal income	1,100	9,099	21,407	40,037	41,888	51,485	397,158
Gross state revenue	88	728	1,713	3,203	3,351	4,119	31,773
MEGA cost	0	109	382	716	719	747	6,334
State revenue net of MEGA cost	88	619	1,331	2,487	2,632	3,372	25,439