The Economic Effects on Michigan of the Pilkington North America Facility Expansion Decision

George A. Fulton
Peter Nicolas
Donald R. Grimes

University of Michigan

September 16, 2003

4

Abstract

Pilkington North America, a manufacturer of value-added automotive glass, is considering relocating the production of six of its products that require hardware attachment from its Shelbyville, Indiana facility to its existing facility in Clinton, Michigan. The facility would employ an additional 120 people by 2009. We estimate that by 2013, this expansion will have generated a total of 252 jobs in the state. Total state government revenues through 2013, net of MEGA costs and adjusted for inflation, would increase by $6,940,000 (2003 dollars) due to the expansion of Pilkington North America.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Pilkington North America, a manufacturer of value-added automotive glass, relocating the production of six of its products that require hardware attachment from its Shelbyville, Indiana facility to its existing facility in Clinton, Michigan (SIC 322). Investment activity would take place in 2003, with an investment of $1.4 million. The facility would employ an additional 120 people by 2009.

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 2003 to 2013, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2004 to 2008 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, and equal to 50 percent for the period 2009 to 2013.

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 investment activity is expected to generate a total of 6 jobs in 2003; almost all of these jobs are temporary. In 2009, the first year of full operations, an additional 260 jobs are generated in the state. We estimate that by 2013, this expansion will have generated a total of 252 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 2.1 over the period 2009 to 2013. 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 Pilkington North America were to expand its operations in Michigan under the incentive program, state personal income in 2009 would be higher by $15.5 million (in current dollars) than it would be without the expansion, and in 2013 it would be $18.4 million higher. Adjusted for inflation, these numbers in 2003 dollars would be $11 million in 2009 and $12.5 million in 2013.

The gain in economic activity results in higher state government revenues. We estimate that in 2009, the first year of full operations, the new facility would generate $1,192,000 in additional gross state government revenue, and that the MEGA package would provide a $54,000 incentive to Pilkington North America. Thus, the Pilkington North America expansion would increase state government revenues in 2009 by $1,138,000, net of MEGA incentive costs.

Over the period 2003 to 2013, gross state government revenue is projected to increase by $10,243,000 (in current dollars) due to the expansion of Pilkington North America. The MEGA incentive package for Pilkington North America is forecast to cost $641,000 over the period, resulting in a net increase in state government revenue of $9,602,000. Adjusted for inflation, the total net increase in state government revenue from 2003 to 2013 would be $6,940,000 in 2003 dollars.

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 Pilkington North America Facility Expansion
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2003	2004	2005	2006	2007	2008	2009	2010	2013	Total 2003-2013
Total Employment	6	189	187	179	173	171	260	257	252	—
Manufacturing	1	92	90	88	86	85	128	127	126	—
Nonmanufacturing	5	97	97	91	87	86	132	130	126	—
Retail Trade	1	21	20	18	17	16	26	24	23	—
Services	2	34	31	28	26	24	41	38	36	—
Other	2	42	46	45	44	46	65	68	67	—
In current dollars (thousands):										
Personal income	200	8,400	9,400	9,800	10,100	10,500	15,500	16,400	18,400	133,200
Gross state revenue	15	646	723	754	777	807	1,192	1,261	1,415	10,243
MEGA cost	0	66	69	69	69	69	54	57	66	641
State revenue net of MEGA cost*	15	580	654	685	708	738	1,138	1,204	1,349	9,602
Adjusted for inflation (thousands of 2003 dollars):										
Personal income	200	7,212	7,241	7,400	7,709	7,855	10,995	11,682	12,549	96,409
Gross state revenue	15	555	557	569	593	604	845	898	965	7,414
MEGA cost	0	57	53	52	53	52	38	40	45	474
State revenue net of MEGA cost*	15	498	504	517	540	552	807	858	920	6,940

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