

**The Economic Effects on Michigan
of the Pilot Industries, Inc., Plant Location Decision**

**George A. Fulton
Peter Nicolas
Donald R. Grimes**

**University of Michigan
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Abstract

Pilot Industries, Inc., is considering locating a sheet molding compound plant in Michigan that would produce parts for the automotive industry. By 1998, the plant would employ 418 people. We estimate that by 2016, this plant will have generated a total of 899 jobs in the state. Total state government revenues through 2016, net of MEGA costs and adjusted for inflation, would be increased by \$33,797,000 (1995 dollars) due to the location of Pilot Industries, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Pilot Industries, Inc.'s locating a sheet molding compound plant in the state that would produce parts for the automotive industry (SIC 3089). A new plant would be built and equipped between 1996 and 1998, with an investment of \$11.6 million, and would begin production in mid-1996. The plant would employ 418 workers by 1998.

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 2016, are shown in the attached table. The MEGA incentive package includes relief from the single business tax for the period 1997-2008 and a tax credit to the company for the period 1997-2016 equal to 4.4 percent of the payroll (gross wages) of employees hired at the plant 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 of the plant and investment in machinery and equipment is expected to generate a total of 80 jobs in 1996, 17 in 1997, and 14 in 1998; almost all of these jobs are temporary. In 1999, the first year of full production without construction activity, an additional 780 jobs are generated in the state. We estimate that by 2016, this plant will have generated a total of 899 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 new plant averages 1.9 over the period 1999-2016. 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 Pilot Industries, Inc., were to locate in Michigan under the incentive program, state personal income in 1999 would be higher by \$33.3 million (in current dollars) than it would be without the facility, and in 2016 it would be \$83.1 million higher. Adjusted for inflation, these numbers in 1995 dollars would be \$21.9 million in 1999 and \$32.5 million in 2016.

The gain in economic activity results in higher state government revenues. The construction of the plant and investment in machinery and equipment would generate \$1,144,000 in 1996 (in current dollars) in additional gross state revenue. Since there are no MEGA incentives offered to the construction companies, this value is also the impact on net state revenue. We estimate that the additional economic activity resulting from the operation of this plant and the investment in machinery and equipment would generate additional gross state government revenue of \$1,984,000 in 1997 and \$2,480,000 in 1998. The MEGA package would give Pilot Industries, Inc., an incentive of \$502,000 in 1997 and \$600,000 in 1998. Thus, the Pilot Industries, Inc., plant would generate additional net state revenue of \$1,482,000 in 1997 and \$1,880,000 in 1998. We estimate that in 1999, the first year of full production without construction activity, the operation of the plant would generate \$2,664,000 in additional gross state government revenue, and that the MEGA package would provide a \$678,000 incentive to Pilot Industries, Inc. Thus, the Pilot Industries, Inc., plant would generate an additional \$1,986,000 in revenue to state government in 1999, net of MEGA incentive costs.

Over the period 1996-2016, gross state government revenue is projected to increase by \$84,536,000 (in current dollars) due to the location of Pilot Industries, Inc. The MEGA incentive package for Pilot Industries, Inc., is forecast to cost \$14,510,000 over the period, resulting in a net increase in state government revenue of \$70,026,000. Adjusted for inflation, the total net increase in state government revenue from 1996 to 2016 would be \$33,797,000 in 1995 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 Pilot Industries, Inc., Plant Location Decision
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	1996	1997	1998	1999	2000	2005	2010	2016	Total 1996-2016
Total employment	451	722	804	780	769	774	839	899	—
Manufacturing	206	411	449	437	430	420	428	437	—
Nonmanufacturing	245	311	355	343	339	354	411	462	—
Retail trade	48	71	79	74	71	68	78	89	—
Services	84	120	133	124	119	120	142	168	—
Other	113	120	143	145	149	166	191	205	—
In current dollars (thousands):									
Personal income	14,300	24,800	31,000	33,300	35,600	45,700	60,800	83,100	1,056,700
Gross state revenue	1,144	1,984	2,480	2,664	2,848	3,656	4,864	6,648	84,536
MEGA cost*	0	502	600	678	704	857	584	772	14,510
State revenue net of MEGA cost	1,144	1,482	1,880	1,986	2,144	2,799	4,280	5,876	70,026
Adjusted for inflation (thousands of 1995 dollars):									
Personal income	11,648	18,637	21,483	21,913	22,410	25,365	28,984	32,505	540,542
Gross state revenue	932	1,491	1,718	1,753	1,793	2,029	2,319	2,600	43,243
MEGA cost*	0	465	534	580	580	580	325	339	9,446
State revenue net of MEGA cost	932	1,026	1,184	1,173	1,213	1,449	1,994	2,261	33,797

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