

**The Economic Effects on Michigan of the
Plastech Facility Location Decision**

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

University of Michigan

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Abstract

Plastech is considering building a new manufacturing facility in Romulus, Michigan, for the production of plastic injection-molded parts and blow-molded parts for the automotive industry. The facility would employ an additional 400 people by 2005. We estimate that by 2011, this location will have generated a total of 555 jobs in the state. Total state government revenues through 2011, net of MEGA costs and adjusted for inflation, would increase by \$15,285,000 (2002 dollars) due to the location of Plastech.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Plastech building a new manufacturing facility in Romulus, Michigan, for the production of plastic injection-molded parts and blow-molded parts for the automotive industry (SIC 30). Investment activity would take place between 2002 and 2006, with an investment of \$37.7 million. The facility would employ an additional 400 people by 2005.

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 2002 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 75 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility 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 activity is expected to generate a total of 313 jobs in 2002; almost all of these jobs are temporary. In 2007, the first year of full operations without investment activity, an additional 582 jobs are generated in the state. We estimate that by 2011, this location will have generated a total of 555 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 location averages 1.4 over the period 2007 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 Plastech were to locate in Michigan under the incentive program, state personal income in 2007 would be higher by \$31.1 million (in current dollars) than it would be without

the facility, and in 2011 it would be \$34.4 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$24.5 million in 2007 and \$25.9 million in 2011.

The gain in economic activity results in higher state government revenues. We estimate that in 2007, the first year of full operations without investment activity, the facility would generate \$2,488,000 in additional gross state government revenue, and that the MEGA package would provide a \$386,000 incentive to Plastech. Thus, the Plastech facility location would increase state government revenues in 2007 by \$2,102,000, net of MEGA incentive costs.

Over the period 2002 to 2011, gross state government revenue is projected to increase by \$22,368,000 (in current dollars) due to the location of Plastech. The MEGA incentive package for Plastech is forecast to cost \$3,493,000 over the period, resulting in a net increase in state government revenue of \$18,875,000. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2011 would be \$15,285,000 in 2002 dollars. These calculations do not include any revenue losses due to the Investment Tax Credit or the property tax abatement. If the costs of the tax credit and the tax 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 Plastech Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	2007	2010	2011	Total 2002-2011
Total Employment	370	400	529	625	601	582	560	555	—
Manufacturing	63	256	344	404	400	400	400	400	—
Nonmanufacturing	307	144	185	221	201	182	160	155	—
Retail Trade	39	36	45	52	47	42	36	35	—
Services	70	45	56	65	56	48	39	38	—
Other	198	63	84	104	98	92	85	82	—
In current dollars (thousands):									
Personal income	16,000	17,100	23,500	29,300	30,400	31,100	33,500	34,400	279,600
Gross state revenue	1,280	1,368	1,880	2,344	2,432	2,488	2,680	2,752	22,368
MEGA cost	115	260	303	369	373	386	429	445	3,493
State revenue net of MEGA cost*	1,165	1,108	1,577	1,975	2,059	2,102	2,251	2,307	18,875
Adjusted for inflation (thousands of 2002 dollars):									
Personal income	16,000	15,785	20,344	24,075	24,245	24,531	25,757	25,900	226,253
Gross state revenue	1,280	1,263	1,628	1,926	1,940	1,962	2,061	2,072	18,100
MEGA cost	115	240	263	303	297	304	330	335	2,815
State revenue net of MEGA cost*	1,165	1,023	1,365	1,623	1,643	1,658	1,731	1,737	15,285

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