

**The Economic Effects on Michigan of the
Recticel North America, Inc. Facility Location Decision**

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Abstract

Recticel North America, Inc. is considering establishing a 260,000 square foot facility in Independence Township, Oakland County, to manufacture molded interior skins for a Tier 1 automotive supplier servicing GM Canada, and also to house its North American headquarters, its Research and Development Center, and its Quality Laboratories. The facility would employ an additional 286 people by 2006. We estimate that by 2012, this location will have generated a total of 454 jobs in the state. Total state government revenues through 2012, net of MEGA costs and adjusted for inflation, would increase by \$13,593,000 (2001 dollars) due to the location of Recticel North America, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Recticel North America, Inc. establishing a 260,000 square foot facility in Independence Township, Oakland County, to manufacture molded interior skins for a Tier 1 automotive supplier servicing GM Canada, and also to house its North American headquarters, its Research and Development Center, and its Quality Laboratories (SIC 3087). Investment activity would take place between 2001 and 2005, with an investment of \$48.76 million. The facility would employ an additional 286 people by 2006.

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 2001 to 2012, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2003 to 2007 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 75 percent for the period 2008 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 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 45 jobs in 2001, 212 jobs in 2002, 23 jobs in 2003, 27 jobs in 2004, and 11 jobs in 2005; almost all of these jobs are temporary. In 2006, the first year of full operations, an additional 492 jobs are generated in the state. We estimate that by 2012, this location will have generated a total of 454 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 1.6 over the period 2006 to 2012. 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 Recticel North America, Inc. were to locate in Michigan under the incentive program, state personal income in 2006 would be higher by \$28.4 million (in current dollars) than it would be without the facility, and in 2012 it would be \$33.5 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$20.0 million in 2006 and \$21.8 million in 2012.

The gain in economic activity results in higher state government revenues. We estimate that in 2006, the first year of full operations, the facility would generate \$2,272,000 in additional gross state government revenue, and that the MEGA package would provide an \$454,000 incentive to Recticel North America, Inc. Thus, the Recticel North America, Inc. facility location would increase state government revenues in 2006 by \$1,818,000, net of MEGA incentive costs.

Over the period 2001 to 2012, gross state government revenue is projected to increase by \$23,152,000 (in current dollars) due to the location of Recticel North America, Inc. The MEGA incentive package for Recticel North America, Inc. is forecast to cost \$3,713,000 over the period, resulting in a net increase in state government revenue of \$19,439,000. Adjusted for inflation, the total net increase in state government revenue from 2001 to 2012 would be \$13,593,000 in 2001 dollars. These calculations do not include any revenue losses due to the Investment Tax Credit. If the costs of the tax credit 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 Rectical North America, Inc. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2001	2002	2003	2004	2005	2006	2010	2012	Total 2001-2012
Total Employment	45	246	219	447	490	492	453	454	—
Manufacturing	1	34	115	222	266	288	286	286	—
Nonmanufacturing	44	212	104	225	224	204	167	168	—
Retail Trade	5	26	23	51	52	49	40	39	—
Services	7	43	35	80	75	62	47	49	—
Other	32	143	46	94	97	93	80	80	—
In current dollars (thousands):									
Personal income	1,900	11,000	11,300	22,600	26,600	28,400	31,500	33,500	289,400
Gross state revenue	152	880	904	1,808	2,128	2,272	2,520	2,680	23,152
MEGA cost	0	0	154	299	389	454	389	418	3,713
State revenue net of MEGA cost*	152	880	750	1,509	1,739	1,818	2,131	2,262	19,439
Adjusted for inflation (thousands of 2001 dollars):									
Personal income	1,900	8,827	8,638	17,236	19,446	19,997	20,976	21,810	202,112
Gross state revenue	152	706	691	1,379	1,556	1,600	1,678	1,745	16,169
MEGA cost	0	0	118	228	284	319	259	272	2,576
State revenue net of MEGA cost*	152	706	573	1,151	1,272	1,281	1,419	1,473	13,593

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