

**The Economic Effects on Michigan
of the Scott Technologies Facility Expansion Decision**

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Abstract

Scott Technologies is considering expanding into a newly renovated facility to increase its production of breathing apparatus, such as particle and chemical filtering masks, for industrial, military, and commercial use. The newly renovated facility would employ 92 additional people by 2001. We estimate that by 2010, this expansion will have generated a total of 165 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would increase by \$5,085,000 (1998 dollars) due to the expansion of Scott Technologies.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Scott Technologies' expanding into a newly renovated facility to increase its production of breathing apparatus, such as particle and chemical filtering masks, for industrial, military, and commercial use (SIC 3991). Investment activity would take place in 1999, with an investment of \$900,000, and production would begin in April 1999. The newly renovated facility would employ 92 additional people by 2001.

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 1999 to 2010, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2001 through 2010 equal to 2.2 percent of the payroll (gross wages) of employees hired at the facility as a result of the expansion. The payroll tax credit represents 50 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 6 jobs in 1999; almost all of these jobs are temporary. In 2001, the first year of full operations, an additional 178 jobs are generated in the state. We estimate that by 2010, this facility addition will have generated a total of 165 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 1.8 over the period 2001 to 2010. 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 Scott Technologies were to expand in Michigan under the incentive program, state personal income in 2001 would be higher by \$7.7 million (in current dollars) than it would be without the facility, and in 2010 it would be \$11.3 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$5.8 million in 2001 and \$6.7 million in 2010.

The gain in economic activity results in higher state government revenues. We estimate that in 2001, the first year of full operations, the facility would generate \$616,000 in additional gross state government revenue, and that the MEGA package would provide a \$51,000 incentive to Scott Technologies. Thus, the Scott Technologies facility expansion would increase state government revenues in 2001 by \$565,000, net of MEGA incentive costs.

Over the period 1999 to 2010, gross state government revenue is projected to increase by \$8,264,000 (in current dollars) due to the expansion of Scott Technologies. The MEGA incentive package for Scott Technologies is forecast to cost \$598,000 over the period, resulting in a net increase in state government revenue of \$7,666,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2010 would be \$5,085,000 in 1998 dollars. These calculations do not include any revenue losses due to the property tax abatement or the Capital Acquisition Deduction. If the cost of the abatement or the CAD 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 Scott Technologies Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2005	2010	Total 1999-2010
Total Employment	58	131	178	163	165	—
Manufacturing	29	72	98	93	92	—
Nonmanufacturing	29	59	80	70	73	—
Retail Trade	7	15	20	15	14	—
Services	10	22	30	24	25	—
Other	12	22	30	31	34	—
In current dollars (thousands):						
Personal income	2,200	5,300	7,700	9,300	11,300	103,300
Gross state revenue	176	424	616	744	904	8,264
MEGA cost	0	0	51	59	70	598
State revenue net of MEGA cost*	176	424	565	685	834	7,666
Adjusted for inflation (thousands of 1998 dollars):						
Personal income	1,706	4,158	5,815	6,037	6,737	68,450
Gross state revenue	136	333	465	483	539	5,476
MEGA cost	0	0	38	38	42	391
State revenue net of MEGA cost*	136	333	427	445	497	5,085

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