

**The Economic Effects on Michigan
of the Smiths Industries Aerospace Facility Expansion Decision**

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Abstract

Smiths Industries Aerospace is considering expanding its research and development facility in Cascade Township, Michigan to accommodate growth in its aerospace business. The new facility would employ 105 people by 2000. We estimate that by 2009, this expansion will have generated a total of 233 jobs in the state. Total state government revenues through 2009, net of MEGA costs and adjusted for inflation, would increase by \$7,816,000 (1998 dollars) due to the expansion of Smiths Industries Aerospace.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Smiths Industries Aerospace's expanding its research and development facility in Cascade Township, Michigan to accommodate growth in its aerospace business (SIC 3812). Investment activity would take place in 1998, with an investment of \$7.45 million, and production would begin in January 1999. The new facility would employ 105 people by 2000.

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 1998 to 2009, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2000 to 2009, and a tax credit to the company for the same period equal to 4.4 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 100 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 32 jobs in 1998; almost all of these jobs are temporary. In 2000, the first year of full operations, an additional 287 jobs are generated in the state. We estimate that by 2009 this facility will have generated a total of 233 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 2.4 over the period 2000 to 2009. 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 Smiths Industries Aerospace were to expand in Michigan under the incentive program, state personal income in 2000 would be higher by \$16.6 million (in current dollars) than it would be without the facility, and in 2009 it would be \$22.9 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$13.8 million in 2000 and \$14.4 million in 2009.

The gain in economic activity results in higher state government revenues. We estimate that in 2000, the first year of full operations, the facility would generate \$1,328,000 in additional gross state government revenue, and that the MEGA package would provide a \$398,000 incentive to Smiths Industries Aerospace. Thus, the Smiths Industries Aerospace facility expansion would increase state government revenues in 2000 by \$930,000, net of MEGA incentive costs.

Over the period 1998 to 2009, gross state government revenue is projected to increase by \$16,744,000 (in current dollars) due to the expansion of Smiths Industries Aerospace. The MEGA incentive package for Smiths Industries Aerospace is forecast to cost \$5,995,000 over the period, resulting in a net increase in state government revenue of \$10,749,000. Adjusted for inflation, the total net increase in state government revenue from 1998 to 2009 would be \$7,816,000 in 1998 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 Smiths Industries Aerospace Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1998	1999	2000	2001	2003	2005	2007	2009	Total 1998-2009
Total Employment	45	143	287	273	252	240	234	233	—
Manufacturing	22	81	113	109	105	105	105	105	—
Nonmanufacturing	23	62	174	164	147	135	129	128	—
Retail Trade	5	23	53	50	46	43	41	41	—
Services	0	18	73	68	62	59	57	60	—
Other	18	21	48	46	39	33	31	27	—
In current dollars (thousands):									
Personal income	2,700	9,100	16,600	17,500	18,800	20,000	21,300	22,900	209,300
Gross state revenue	216	728	1,328	1,400	1,504	1,600	1,704	1,832	16,744
MEGA cost	0	0	398	530	572	619	669	722	5,995
State revenue net of MEGA cost*	216	728	930	870	932	981	1,035	1,110	10,749
Adjusted for inflation (thousands of 1998 dollars):									
Personal income	2,700	8,011	13,813	13,815	13,935	13,903	14,095	14,438	150,510
Gross state revenue	216	641	1,105	1,105	1,115	1,112	1,128	1,155	12,041
MEGA cost	0	0	332	419	424	430	443	455	4,225
State revenue net of MEGA cost*	216	641	773	686	691	682	685	700	7,816

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