

**The Economic Effects on Michigan of the
Speedrack Products Group, Ltd. Facility Location Decision**

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Abstract

Speedrack Products Group, Ltd., a manufacturer of metal warehouse storage/pallet racks, is considering purchasing an existing 330,700 square foot building in Quincy, Michigan and consolidating two of its out-of-state manufacturing facilities there to reduce overhead and administrative costs. The facility would employ an additional 300 people by 2005. We estimate that by 2006, this location will have generated a total of 581 jobs in the state. Total state government revenues through 2006, net of MEGA costs and adjusted for inflation, would increase by \$5,925,000 (2001 dollars) due to the location of Speedrack Products Group, Ltd.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Speedrack Products Group, Ltd., a manufacturer of metal warehouse storage/pallet racks, purchasing an existing 330,700 square foot building in Quincy, Michigan and consolidating two of its out-of-state manufacturing facilities there to reduce overhead and administrative costs (SIC 3449). Investment activity would take place between 2002 and 2004, with an investment of \$8.51 million. The facility would employ an additional 300 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 2006, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2002 to 2006; it also includes a tax credit to the company for the same period 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.

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 29 jobs in 2002; almost all of these jobs are temporary. In 2005, the first year of full operations, an additional 601 jobs are generated in the state. We estimate that by 2006, this location will have generated a total of 581 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 1.97 over the period 2005 to 2006. 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 Speedrack Products Group, Ltd. were to locate in Michigan under the incentive program, state personal income in 2005 would be higher by \$32.1 million (in current dollars) than it would be without the facility, and in 2006 it would be \$33.4 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$23.2 million in 2005 and \$23.4 million in 2006.

The gain in economic activity results in higher state government revenues. We estimate that in 2005, the first year of full operations, the facility would generate \$2,568,000 in additional gross state government revenue, and that the MEGA package would provide an \$510,000 incentive to Speedrack Products Group, Ltd. Thus, the Speedrack Products Group, Ltd. facility location would increase state government revenues in 2005 by \$2,058,000, net of MEGA incentive costs.

Over the period 2002 to 2006, gross state government revenue is projected to increase by \$9,960,000 (in current dollars) due to the location of Speedrack Products Group, Ltd. The MEGA incentive package for Speedrack Products Group, Ltd. is forecast to cost \$1,945,000 over the period, resulting in a net increase in state government revenue of \$8,015,000. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2006 would be \$5,925,000 in 2001 dollars. These calculations do not include any revenue losses due to the property tax abatement or the Investment Tax Credit. If the costs of the tax abatement and 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 Speedrack Products Group, Ltd. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	Total 2002-2006
Total Employment	283	431	533	601	581	—
Manufacturing	122	222	274	320	314	—
Nonmanufacturing	161	209	259	281	267	—
Retail Trade	34	48	58	62	57	—
Services	58	73	89	92	83	—
Other	69	88	112	127	127	—
In current dollars (thousands):						
Personal income	12,100	20,100	26,800	32,100	33,400	124,500
Gross state revenue	968	1,608	2,144	2,568	2,672	9,960
MEGA cost	147	340	427	510	520	1,945
State revenue net of MEGA cost*	821	1,268	1,717	2,058	2,152	8,015
Adjusted for inflation (thousands of 2001 dollars):						
Personal income	9,886	15,560	19,920	23,206	23,414	91,987
Gross state revenue	791	1,245	1,593	1,856	1,873	7,359
MEGA cost	120	263	317	369	364	1,434
State revenue net of MEGA cost*	671	982	1,276	1,487	1,509	5,925

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