

**The Economic Effects on Michigan
of the Steelcase Inc. Facility Expansion Decision**

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Abstract

Steelcase Inc. is considering expanding its wood furniture manufacturing capacity by renovating an existing facility in Michigan and purchasing new equipment. The renovated facility would employ 290 people by 2003. We estimate that by 2021, this expansion will have generated a total of 892 jobs in the state. Total state government revenues through 2021, net of MEGA costs and adjusted for inflation, would increase by \$52,749,000 (1998 dollars) due to the expansion of Steelcase Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Steelcase Inc. expanding its wood furniture manufacturing capacity by renovating an existing facility in Michigan and purchasing new equipment (SIC 2521). Investment activity would take place between 2000 and 2001, with an investment of \$34.222 million, and production would begin in August 2001. The new facility would employ 290 people by 2003.

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 2000 to 2021, are shown in the attached table. The MEGA incentive package includes a payroll (gross wages) tax credit to the company for the period 2002 to 2021, representing 90 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 192 jobs in 2000 and 127 jobs in 2001; almost all of these jobs are temporary. In 2003, the first year of full operations, an additional 781 jobs are generated in the state. We estimate that by 2021, this facility addition will have generated a total of 892 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 2.7 over the period 2003 to 2021. 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 Steelcase Inc. were to expand in Michigan under the incentive program, state personal income in 2003 would be higher by \$38.5 million (in current dollars) than it would be

without the facility, and in 2021 it would be \$94.7 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$28.5 million in 2003 and \$45.5 million in 2021.

The gain in economic activity results in higher state government revenues. We estimate that in 2003, the first year of full operations, the facility would generate \$3,080,000 in additional gross state government revenue, and that the MEGA package would provide a \$78,000 incentive to Steelcase Inc. Thus, the Steelcase Inc. facility expansion would increase state government revenues in 2003 by \$3,002,000, net of MEGA incentive costs.

Over the period 2000 to 2021, gross state government revenue is projected to increase by \$98,656,000 (in current dollars) due to the expansion of Steelcase Inc. The MEGA incentive package for Steelcase Inc. is forecast to cost \$7,644,000 over the period, resulting in a net increase in state government revenue of \$91,012,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2021 would be \$52,749,000 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 Steelcase Inc. Facility Expansion
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2000	2001	2002	2003	2005	2010	2015	2020	2021	Total 2000-2021
Total Employment	192	191	111	781	761	744	806	880	892	—
Manufacturing	7	61	80	337	323	310	316	322	323	—
Nonmanufacturing	185	130	31	444	438	434	490	558	569	—
Retail Trade	27	23	11	102	92	80	86	94	96	—
Services	26	37	7	203	186	179	211	253	260	—
Other	132	70	13	139	160	175	193	211	213	—
In current dollars (thousands):										
Personal income	7,700	9,900	7,200	38,500	45,300	55,500	70,500	90,100	94,700	1,233,200
Gross state revenue	616	792	576	3,080	3,624	4,440	5,640	7,208	7,576	98,656
MEGA cost	0	0	36	78	316	375	448	540	561	7,644
State revenue net of MEGA cost*	616	792	540	3,002	3,308	4,065	5,192	6,668	7,015	91,012
Adjusted for inflation (thousands of 1998 dollars):										
Personal income	6,000	7,203	5,187	28,528	30,588	34,237	39,431	44,599	45,491	714,435
Gross state revenue	480	576	415	2,282	2,447	2,739	3,154	3,568	3,639	57,155
MEGA cost	0	0	26	58	213	231	250	267	269	4,406
State revenue net of MEGA cost*	480	576	389	2,224	2,234	2,508	2,904	3,301	3,370	52,749

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