

**The Economic Effects on Michigan of the
Strategic Interactive Product Development Center**

Prepared by the Michigan Economic Development Corporation utilizing Regional
Economic Models, Incorporated (REMI) software.

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Abstract

Strategic Interactive, Incorporated is considering building a software development office in Lansing, Michigan. This facility would develop web-based training and performance enhancement software. The new facility would employ up to 150 people by the end of 2004. We estimate that by 2007, this location will have generated a total of 205 jobs in the state. Total state government revenues through 2007, net of MEGA costs and adjusted for inflation, would increase by \$6.0 million (2001 dollars) due to the location of the Strategic Interactive Product Development Center.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Strategic Interactive, Incorporated locating a software development office in Lansing. Investment activity would take place between 2001 and 2005 with an investment of \$5.7 million. The facility would employ an additional 150 people and would be at full production by 2004.

The estimates of the benefits attributable to the project 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 2007, are shown in the attached table. The MEGA incentive package includes a tax credit to the company equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility for the period 2001 to 2003, 75 percent for employees hired from 2004 to 2005, and 50 percent for employees hired from 2006 to 2007.

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 created from two sources, increased purchases from Michigan suppliers and spending by people who receive income due to the increased economic activity. In 2004, the first year of full operations, an additional 249 jobs are generated in the state. The total number of jobs (direct plus spin-off) for every direct job introduced constitutes the "employment multiplier." The employment multiplier for the expansion averages 1.48 over the period 2001 to 2007. Sectoral detail on the employment 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 Strategic Interactive, Incorporated were to locate in Michigan under the incentive program, state personal income in 2004 would be higher by \$15.2 million (in current dollars) than it would be without the facility, and in 2007, it would be \$16.1 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$14.1 million in 2004 and \$14.0 million in 2007.

The gain in economic activity results in higher government revenues. We estimate that in 2006, the first year of full operations without investment activity, the facility would generate \$1.3 in additional gross state revenue, and that the MEGA package would provide a \$131,000 incentive to Strategic Interactive, Incorporated. Thus, the new Strategic Interactive, Incorporated facility would increase state revenues in 2006 by \$1.2 million, net of MEGA costs.

Over the period 2001 to 2007 state government revenue is projected to increase by \$7.7 million (in current dollars) due to the new Strategic Interactive, Incorporated facility. The MEGA incentive package for Strategic Interactive, Incorporated is forecast to cost \$1.1 million over the period, resulting in a net increase in state government revenue of \$6.5 million. Adjusted for inflation, the total net increase in state government revenue from 2001 to 2007 would be \$6 million 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 abatement and the tax credit were included, the net revenue gain to state government would be slightly less.

None of the 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.

**Strategic Interactive, Incorporated
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2001	2002	2003	2004	2005	2006	2007	Total
Total Employment	233	195	218	249	234	217	205	
Manufacturing	5	0	-3	-6	-9	-12	-14	
Non-Manufacturing	228	195	221	255	243	229	219	
Retail Trade	26	21	23	25	23	20	18	
Services	136	148	172	202	196	190	185	
Other	66	26	26	28	24	19	16	
In Current Dollars (Thousands):								
Personal Income	\$10,250	\$10,280	\$12,510	\$15,170	\$15,720	\$15,870	\$16,050	\$95,850
Gross State Revenue	820	822	1,001	1,214	1,258	1,270	1,284	7,669
Mega Cost	134	167	201	182	189	131	136	1,138
State Revenue Net of MEGA Cost*	\$686	\$655	\$800	\$1,032	\$1,069	\$1,139	\$1,148	\$6,531
Adjusted for Inflation (Thousands of 2001 Dollars):								
Personal Income	\$10,250	\$10,041	\$11,937	\$14,145	\$14,328	\$14,143	\$13,988	\$88,832
Gross State Revenue	820	803	955	1,132	1,147	1,132	1,119	7,108
Mega Cost	134	163	192	169	172	117	118	1,065
State Revenue Net of MEGA Cost*	\$686	\$640	\$763	\$963	\$975	\$1,015	\$1,001	\$6,043

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