

**The Economic Effects on Michigan of the  
Warner-Lambert Company Expansion Decision**

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### Abstract

*Warner-Lambert Company is considering expanding its pharmaceutical research and development capabilities at its corporate campus in Ann Arbor on land recently purchased from the University of Michigan. The expanded facility would hire an additional 600 people by 2005. We estimate that by 2022, this expansion will have generated a total of 988 jobs in the state. Total state government revenues through 2022, net of MEGA costs and adjusted for inflation, would increase by \$89,317,000 (2001 dollars) due to the expansion of Warner-Lambert Company.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Warner-Lambert Company expanding its pharmaceutical research and development capabilities at its corporate campus in Ann Arbor on land recently purchased from the University of Michigan (SIC 2834). Investment activity would take place between 2002 and 2007, with an investment of \$726.5 million. The expanded facility would employ 600 additional 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 2022, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2003 to 2022 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 793 jobs in 2002, 1,339 jobs in 2003, 1,563 jobs in 2004, 446 jobs in 2005, 55 jobs in 2006, and 60 jobs in 2007; almost all of these jobs are temporary. We estimate that by 2008, the first year of full operations without investment activity, this expansion will have generated a total of 781 additional jobs in the state. We estimate that by 2022, this expansion will have generated a total of 988 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 this expansion, excluding temporary construction jobs, averages 1.5 over the period 2008 to 2022. 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 Warner-Lambert Company were to expand in Michigan under the incentive program, state personal income in 2008 would be higher by \$88.1 million (in current dollars) than it would be without the facility, and in 2022 it would be \$151.1 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$58.1 million in 2008 and \$79.3 million in 2022.

The gain in economic activity results in higher state government revenues. We estimate that in 2008, the facility would generate \$7,048,000 in additional gross state government revenue, and that the MEGA package would provide a \$1,806,000 incentive to Warner-Lambert Company. Thus, the Warner-Lambert Company facility expansion would increase state government revenues in 2008 by \$5,242,000, net of MEGA incentive costs.

Over the period 2002 to 2022, gross state government revenue is projected to increase by \$184,672,000 (in current dollars) due to the expansion of Warner-Lambert Company. The MEGA incentive package for Warner-Lambert Company is forecast to cost \$42,193,000 over the period, resulting in a net increase in state government revenue of \$142,479,000. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2022 would be \$89,317,000 in 2001 dollars. These calculations do not include any revenue losses due to the Investment Tax Credit or the property tax abatement. If the costs of the tax credit and the tax 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 Warner-Lambert Company Facility Expansion  
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	2007	2008	2010	2015	2020	2022	Total 2002-2022
Total Employment	771	1,720	2,334	1,598	1,143	1,091	781	794	897	970	988	—
Manufacturing	20	293	480	614	600	600	600	600	600	600	600	—
Nonmanufacturing	751	1,427	1,854	984	543	491	181	194	297	370	388	—
Retail Trade	81	230	310	237	175	165	109	112	133	146	150	—
Services	121	340	442	304	195	176	71	75	108	137	146	—
Other	549	857	1,102	443	173	150	1	7	56	87	92	—
In current dollars (thousands):												
Personal income	33,300	88,200	134,100	118,800	102,300	102,400	88,100	91,300	113,100	139,800	151,100	2,308,400
Gross state revenue	2,664	7,056	10,728	9,504	8,184	8,192	7,048	7,304	9,048	11,184	12,088	184,672
MEGA cost	0	515	1,042	1,622	1,683	1,744	1,806	1,940	2,339	2,827	3,049	42,193
State revenue net of MEGA cost*	2,664	6,541	9,686	7,882	6,501	6,448	5,242	5,364	6,709	8,357	9,039	142,479
Adjusted for inflation (thousands of 2001 dollars):												
Personal income	25,542	66,107	96,876	81,588	68,394	68,275	58,148	60,259	69,097	76,624	79,291	1,439,137
Gross state revenue	2,043	5,289	7,750	6,527	5,471	5,462	4,652	4,821	5,528	6,130	6,343	115,131
MEGA cost	0	386	753	1,114	1,125	1,163	1,192	1,281	1,429	1,549	1,600	25,814
State revenue net of MEGA cost*	2,043	4,903	6,997	5,413	4,346	4,299	3,460	3,540	4,099	4,581	4,743	89,317

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