

**The Economic Effects on Michigan
of the Hoover Universal, Inc. Facility Expansion Decision**

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September 15, 1999**

Abstract

Hoover Universal, Inc., a division of Johnson Controls, is considering expanding its operations by building a new facility in Rockwood, Michigan at which it would manufacture and sequence seats for the new KJ series Jeep. The new facility would employ 115 people by 2003. We estimate that by 2009, this expansion will have generated a total of 266 jobs in the state. Total state government revenues through 2009, net of MEGA costs and adjusted for inflation, would increase by \$7,226,000 (1999 dollars) due to the expansion of Hoover Universal, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Hoover Universal, Inc., a division of Johnson Controls, expanding its operations by building a new facility in Rockwood, Michigan at which it would manufacture and sequence seats for the new KJ series Jeep (SIC 2531). Investment activity would take place between 1999 and 2001, with an investment of \$8.8 million, and production would begin in 2001. The new facility would employ 115 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 1999 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 2001 to 2005, and 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 as a result of the project for the period 2001 to 2005, and equal to 75 percent for the period 2006 to 2009.

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 15 jobs in 1999, 73 jobs in 2000, and 3 jobs in 2001; almost all of these jobs are temporary. In 2003, the first year of full operations, an additional 266 jobs are generated in the state. We estimate that by 2009, this expansion will have generated a total of 266 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 2.3 over the period 2003 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 Hoover Universal, Inc. were to expand in Michigan under the incentive program, state personal income in 2003 would be higher by \$15.4 million (in current dollars) than it would be without the facility, and in 2009 it would be \$20.2 million higher. Adjusted for inflation, these numbers in 1999 dollars would be \$11.8 million in 2003 and \$13.6 million in 2009.

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 \$1,232,000 in additional gross state government revenue, and that the MEGA package would provide a \$337,000 incentive to Hoover Universal, Inc. Thus, the Hoover Universal, Inc. facility expansion would increase state government revenues in 2003 by \$895,000, net of MEGA incentive costs.

Over the period 1999 to 2009, gross state government revenue is projected to increase by \$12,272,000 (in current dollars) due to the expansion of Hoover Universal, Inc. The MEGA incentive package for Hoover Universal, Inc. is forecast to cost \$2,299,000 over the period, resulting in a net increase in state government revenue of \$9,973,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2009 would be \$7,226,000 in 1999 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 Hoover Universal, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2002	2003	2005	2007	2009	Total 1999-2009
Total Employment	15	73	246	247	266	259	262	266	—
Manufacturing	0	4	114	115	124	121	120	120	—
Nonmanufacturing	15	69	132	132	142	138	142	146	—
Retail Trade	2	8	33	32	34	31	29	29	—
Services	4	13	58	55	59	55	56	57	—
Other	9	48	41	45	49	52	57	60	—
In current dollars (thousands):									
Personal income	500	3,100	12,000	13,400	15,400	17,000	18,500	20,200	153,400
Gross state revenue	40	248	960	1,072	1,232	1,360	1,480	1,616	12,272
MEGA cost	0	0	309	318	337	338	162	174	2,299
State revenue net of MEGA cost*	40	248	651	754	895	1,022	1,318	1,442	9,973
Adjusted for inflation (thousands of 1999 dollars):									
Personal income	500	2,573	9,809	10,586	11,841	12,281	12,940	13,638	111,670
Gross state revenue	40	206	785	847	947	983	1,035	1,091	8,934
MEGA cost	0	0	253	251	259	244	114	118	1,708
State revenue net of MEGA cost*	40	206	532	596	688	739	921	973	7,226

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

**Fiscal Effects on Michigan of the Hoover Universal, Inc. Facility Expansion
Net Benefits with the Incentive Package**

Year	Gross State Revenue	MEGA Cost	State Revenue Net of MEGA Cost
	(In thousands of current dollars)		
1999	40	0	40
2000	248	0	248
2001	960	309	651
2002	1,072	318	754
2003	1,232	337	895
2004	1,296	335	961
2005	1,360	338	1,022
2006	1,424	157	1,267
2007	1,480	162	1,318
2008	1,544	168	1,376
2009	1,616	174	1,442