

**The Economic Effects on Michigan of the
AW Tech Center Expansion**

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

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Abstract

AW Tech Center U.S.A., Inc. is considering an expansion of its engineering research and development center in Ann Arbor Township, Michigan. This expansion would increase its research and development in automatic transmissions and navigational systems. The new facility would employ up to 45 people by the end of 2006. We estimate that by 2011, this location will have generated a total of 58 jobs in the state. Total state government revenues through 2011, net of MEGA costs and adjusted for inflation, would increase by \$2.4 million (2001 dollars) due to the location of the AW Tech Center Expansion.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of AW Tech Center U.S.A., Inc., to expand its engineering research and development in Ann Arbor Township. Investment activity would take place between 2003 and 2004 with an investment of \$4.1 million. The facility would employ an additional 45 people and would be at full production by 2006.

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 2002 to 2011, 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 2002 to 2011.

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 2003, the first year of full operations, an additional 33 jobs are generated in the state. The total number of jobs (direct plus spin-off) for every direct job induced constitutes the "employment multiplier." The employment multiplier for the expansion averages 1.38 over the period 2002 to 2011. 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 AW Tech Center U.S.A., Inc. were to expand in Michigan under the incentive program, state personal income in 2003 would be higher by \$3.2 million (in current dollars) than it would be without the facility, and in 2011, it would be \$5.4 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$3.1 million in 2003 and \$4.5 million in 2011.

The gain in economic activity results in higher government revenues. We estimate that in 2005, the first year of full operations without investment activity, the facility would generate \$339,000 in additional gross state revenue, and that the MEGA package would provide an \$81,000 incentive to AW Tech Center U.S.A., Inc.. Thus, the new AW Tech Center U.S.A., Inc. facility would increase state revenues in 2005 by \$258,000, net of MEGA costs.

Over the period 2002 to 2011 state government revenue is projected to increase by \$3.5 million (in current dollars) due to the new AW Tech Center U.S.A., Inc. facility. The MEGA incentive package for AW Tech Center U.S.A., Inc. is forecast to cost \$851,000 over the period, resulting in a net increase in state government revenue of \$2.7 million. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2011 would be \$2.4 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.

AW Tech Center
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Total Employment	33	63	70	68	73	68	66	63	60	58	
Manufacturing	0	2	0	(1)	(2)	(3)	(3)	(4)	(4)	(4)	
Non-Manufacturing	33	61	70	69	75	71	69	67	64	62	
Retail Trade	3	7	7	7	7	6	6	6	5	5	
Services	26	44	52	55	60	58	57	57	55	53	
Other	4	10	11	7	8	7	6	4	4	4	
In Current Dollars (Thousands):											
Personal Income	\$1,526	\$3,204	\$3,937	\$4,242	\$4,791	\$4,974	\$5,096	\$5,341	\$5,341	\$5,402	\$43,854
Gross State Revenue	122	256	315	339	383	398	408	427	427	432	3,507
Mega Cost	33	56	70	81	92	96	100	104	108	112	851
State Revenue Net of MEGA Cost*	\$89	\$200	\$245	\$258	\$291	\$302	\$308	\$323	\$319	\$320	\$2,656
Adjusted for Inflation (Thousands of 2002 Dollars):											
Personal Income	\$1,526	\$3,143	\$3,786	\$3,999	\$4,428	\$4,507	\$4,528	\$4,647	\$4,546	\$4,497	\$39,607
Gross State Revenue	122	251	303	320	354	361	363	372	363	360	3,169
Mega Cost	33	55	67	76	85	87	89	90	92	93	767
State Revenue Net of MEGA Cost*	\$89	\$196	\$236	\$244	\$269	\$274	\$274	\$282	\$271	\$267	\$2,402

* 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.