

**The Economic Effects on Michigan of the
Acuson Corporation Expansion**

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

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Abstract

Acuson Corporation is considering an expansion of their engineering and support operations center in Ann Arbor, Michigan. Acuson is involved in the design and deployment of medical diagnostic systems. This project would involve the relocation of up to 100 employees from California to the expanded Ann Arbor facility. The new facility would employ up to 156 people by the end of 2005. We estimate that by 2005, this location will have generated a total of 263 jobs in the state. Total state government revenues through 2005, net of MEGA costs and adjusted for inflation, would increase by \$5,772,000 (2000 dollars) due to the expansion of the Acuson Corporation facility.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Acuson Corporation expanding their engineering and support operations center in Ann Arbor. Investment activity would take place between 2000 and 2004, with an investment of \$14,622,000. The facility would employ an additional 156 people and would be fully operational by 2001.

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 2000 to 2005, are shown in the attached table. The MEGA incentive package includes a tax credit to the company equal to 25 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility for the period 2000 to 2005.

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 2001, the first year of full operations, an additional 273 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 1.52 over the period 2000 to 2005. 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 Acuson Corporation were to expand in Michigan under the incentive program, state personal income in 2001 would be higher by \$13.8 million (in current dollars) than it would be without the facility, and in 2005, it would be \$19 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$13.5 million in 2001 and \$17 million in 2005.

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 \$1,516,000 in additional gross state revenue, and that the MEGA package would provide a \$173,000 incentive to Acuson Corporation. Thus, the expanded Acuson Corporation facility would increase state revenues in 2005 by \$1,343,000 net of MEGA costs.

Over the period 2000 to 2005, state government revenue is projected to increase by \$6,941,000 (in current dollars) due to the expanded Acuson Corporation facility. The MEGA incentive package for Acuson Corporation is forecast to cost \$773,000 over the period, resulting in a net increase in state government revenue of \$6,168,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2005 would be \$5,772,000 in 2000 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.

Acuson Corporation
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2000	2001	2002	2003	2004	2005	Total
Total Employment	45	273	278	279	281	263	
Manufacturing	17	133	142	148	154	150	
Non-Manufacturing	28	140	136	131	127	113	
Retail Trade	6	36	37	37	36	33	
Services	9	56	54	52	51	46	
Other	13	48	45	42	40	34	
In Current Dollars (Thousands):							
Personal Income	\$2,075	\$13,760	\$15,870	\$17,300	\$18,800	\$18,950	\$86,755
Gross State Revenue	166	1,101	1,270	1,384	1,504	1,516	6,941
Mega Cost	15	122	142	154	167	173	773
State Revenue Net of MEGA Cost*	\$151	\$979	\$1,128	\$1,230	\$1,337	\$1,343	\$6,168
Adjusted for Inflation (Thousands of 2000 Dollars):							
Personal Income	\$2,075	\$13,462	\$15,196	\$16,213	\$17,243	\$17,007	\$81,196
Gross State Revenue	166	1,077	1,216	1,297	1,379	1,361	6,496
Mega Cost	15	119	136	145	153	156	724
State Revenue Net of MEGA Cost*	\$151	\$958	\$1,080	\$1,152	\$1,226	\$1,205	\$5,772

* 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.