

**The Economic Effects on Michigan of the
Akebono Corporation Expansion Decision**

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Abstract

Akebono Corporation is considering relocating and expanding its Technical and Engineering Services Group to incorporate proprietary state-of-the-art techniques for the design, testing, and development of advanced manufacturing processes and materials for automotive braking components. The facility would employ an additional 190 people by 2008. We estimate that by 2013, this expansion will have generated a total of 293 jobs in the state. Total state government revenues through 2013, net of MEGA costs and adjusted for inflation, would increase by \$12,514,000 (2002 dollars) due to the expansion of Akebono Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Akebono Corporation relocating and expanding its Technical and Engineering Services Group to incorporate proprietary state-of-the-art techniques for the design, testing, and development of advanced manufacturing processes and materials for automotive braking components (SIC 8732). Investment activity would take place between 2004 and 2008, with an investment of \$42.9 million. The facility would employ an additional 190 people by 2008.

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 2004 to 2013, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2004 to 2013 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 investment activity is expected to generate a total of 230 jobs in 2004; almost all of these jobs are temporary. In 2009, the first year of full operations without investment activity, an additional 328 jobs are generated in the state. We estimate that by 2013, this expansion will have generated a total of 293 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 1.6 over the period 2009 to 2013. 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 Akebono Corporation were to expand its operations to Michigan under the incentive program, state personal income in 2009 would be higher by \$33 million (in current dollars) than it would be without the expansion, and in 2013 it would be \$36.7 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$22.6 million in 2009 and \$23.6 million in 2013.

The gain in economic activity results in higher state government revenues. We estimate that in 2009, the first year of full operations without investment activity, the facility would generate \$2,640,000 in additional gross state government revenue, and that the MEGA package would provide a \$634,000 incentive to Akebono Corporation. Thus, the Akebono Corporation expansion would increase state government revenues in 2009 by \$2,006,000, net of MEGA incentive costs.

Over the period 2004 to 2013, gross state government revenue is projected to increase by \$23,448,000 (in current dollars) due to the expansion of Akebono Corporation. The MEGA incentive package for Akebono Corporation is forecast to cost \$5,331,000 over the period, resulting in a net increase in state government revenue of \$18,117,000. Adjusted for inflation, the total net increase in state government revenue from 2004 to 2013 would be \$12,514,000 in 2002 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 Akebono Corporation Expansion
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2004	2005	2006	2007	2008	2009	2010	2013	Total 2004-2013
Total Employment	393	188	262	336	355	328	314	293	—
Manufacturing	17	0	0	0	0	0	0	0	—
Nonmanufacturing	376	188	262	336	355	328	314	293	—
Retail Trade	52	29	41	52	56	52	50	46	—
Services	163	128	183	235	255	243	237	228	—
Other	161	31	38	49	44	33	27	19	—
In current dollars (thousands):									
Personal income	21,600	15,200	21,500	28,600	32,500	33,000	33,800	36,700	293,100
Gross state revenue	1,728	1,216	1,720	2,288	2,600	2,640	2,704	2,936	23,448
MEGA cost	180	223	359	502	607	634	662	751	5,331
State revenue net of MEGA cost*	1,548	993	1,361	1,786	1,993	2,006	2,042	2,185	18,117
Adjusted for inflation (thousands of 2002 dollars):									
Personal income	16,934	10,997	15,637	20,508	22,811	22,581	22,826	23,607	201,917
Gross state revenue	1,355	880	1,251	1,641	1,825	1,807	1,826	1,889	16,153
MEGA cost	141	162	261	360	426	434	447	483	3,639
State revenue net of MEGA cost*	1,214	718	990	1,281	1,399	1,373	1,379	1,406	12,514

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