

**The Economic Effects on Michigan of the
American Axle & Manufacturing Facility Expansion Decision**

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Abstract

American Axle & Manufacturing is considering expanding its facility in Three Rivers, Michigan, for the production of automotive and truck axles. The expanded facility would employ an additional 233 people by 2003. We estimate that by 2015, this expansion will have generated a total of 508 jobs in the state. Total state government revenues through 2015, net of MEGA costs and adjusted for inflation, would increase by \$15,448,000 (2000 dollars) due to the expansion of American Axle & Manufacturing.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of American Axle & Manufacturing expanding its facility in Three Rivers, Michigan, for the production of automotive and truck axles (SIC 349). Investment activity would take place in 2000 and 2001, with an investment of \$73.6 million. The facility would employ an additional 233 people and be at full production 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 2000 to 2015, 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 2015; it also includes a tax credit to the company for the same period 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 128 jobs in 2000 and 195 jobs in 2001; almost all of these jobs are temporary. In 2003, the first year of full operations, an additional 455 jobs are generated in the state. We estimate that by 2015, this expansion will have generated a total of 508 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 2.0 over the period 2003 to 2015. 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 American Axle & Manufacturing were to expand in Michigan under the incentive

program, state personal income in 2003 would be higher by \$25.3 million (in current dollars) than it would be without the facility, and in 2015 it would be \$45.2 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$20.9 million in 2003 and \$27.9 million in 2015.

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 \$2,024,000 in additional gross state government revenue, and that the MEGA package would provide a \$1,405,000 incentive to American Axle & Manufacturing. Thus, the American Axle & Manufacturing facility expansion would increase state government revenues in 2003 by \$619,000, net of MEGA incentive costs.

Over the period 2000 to 2015, gross state government revenue is projected to increase by \$39,368,000 (in current dollars) due to the expansion of American Axle & Manufacturing. The MEGA incentive package for American Axle & Manufacturing is forecast to cost \$17,370,000 over the period, resulting in a net increase in state government revenue of \$21,998,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2015 would be \$15,448,000 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 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 American Axle & Manufacturing Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2005	2010	2015	Total 2000-2015
Total Employment	213	321	412	455	447	461	508	—
Manufacturing	88	137	232	252	246	242	246	—
Nonmanufacturing	125	184	180	203	201	219	262	—
Retail Trade	28	41	52	55	50	48	52	—
Services	55	86	78	84	78	83	103	—
Other	42	57	50	64	73	88	107	—
In current dollars (thousands):								
Personal income	9,700	16,100	21,400	25,300	28,000	35,000	45,200	492,100
Gross state revenue	776	1,288	1,712	2,024	2,240	2,800	3,616	39,368
MEGA cost	0	1,268	1,608	1,405	1,197	1,089	932	17,370
State revenue net of MEGA cost*	776	20	104	619	1,043	1,711	2,684	21,998
Adjusted for inflation (thousands of 2000 dollars):								
Personal income	9,700	14,557	18,285	20,920	21,680	24,415	27,926	354,810
Gross state revenue	776	1,165	1,463	1,674	1,734	1,953	2,234	28,385
MEGA cost	0	1,146	1,373	1,162	927	760	576	12,937
State revenue net of MEGA cost*	776	19	90	512	807	1,193	1,658	15,448

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