The Economic Effects on Michigan of the American Communications Network, Inc. Facility Location Decision

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Abstract

American Communications Network, Inc. is considering locating a new customer service call center in a vacant facility at the former K.I. Sawyer Air Force Base, which was recently given Renaissance Zone status by MEDC. The renovated facility would employ an additional 750 people by 2006. We estimate that by 2012, this location will have generated a total of 943 jobs in the state. Total state government revenues through 2012, net of MEGA costs and adjusted for inflation, would increase by $22,013,000 (2000 dollars) due to the location of American Communications Network, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of American Communications Network, Inc. locating a new customer service call center in a vacant facility at the former K.I. Sawyer Air Force Base, which was recently given Renaissance Zone status by MEDC (SIC 7389). Investment activity would take place between 2000 and 2001, with an investment of $16.1 million. The facility would employ an additional 750 people and be at full production by 2006.

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 2012, 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 as a result of the project for the period 2001 to 2005, and equal to 75 percent for the period 2006 to 2012.

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 75 jobs in 2000 and 53 jobs in 2001; almost all of these jobs are temporary. In 2006, the first year of full operations, an additional 1,013 jobs are generated in the state. We estimate that by 2012, this location will have generated a total of 943 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 location averages 1.28 over the period 2006 to 2012. 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 Communications Network, Inc. were to locate in Michigan under the incentive program, state personal income in 2006 would be higher by $50.2 million (in current dollars) than it would be without the facility, and in 2012 it would be $64.2 million higher. Adjusted for inflation, these numbers in 2000 dollars would be $33.3 million in 2006 and $37.4 million in 2012.

The gain in economic activity results in higher state government revenues. We estimate that in 2006, the first year of full operations, the facility would generate $4,016,000 in additional gross state government revenue, and that the MEGA package would provide a $609,000 incentive to American Communications Network, Inc. Thus, the American Communications Network, Inc. facility location would increase state government revenues in 2006 by $3,407,000, net of MEGA incentive costs.

Over the period 2000 to 2012, gross state government revenue is projected to increase by $40,488,000 (in current dollars) due to the location of American Communications Network, Inc. The MEGA incentive package for American Communications Network, Inc. is forecast to cost $6,241,000 over the period, resulting in a net increase in state government revenue of $34,247,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2012 would be $22,013,000 in 2000 dollars. These calculations do not include any revenue losses due to the property tax abatement, the investment tax credit, or the Renaissance Zone Credit. If the costs of the abatement and the tax credits 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 Communications Network, Inc. Facility Location
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2000	2001	2002	2003	2004	2005	2006	2010	2012	Total 2000-2012
Total Employment	136	194	223	357	577	927	1,013	943	943	—
Manufacturing	13	1	0	0	0	0	0	0	0	—
Nonmanufacturing	123	193	223	357	577	927	1,013	943	943	—
Retail Trade	18	19	18	29	46	74	76	56	53	—
Services	69	126	188	301	483	773	848	807	804	—
Other	36	48	17	27	48	80	89	80	86	—
In current dollars (thousands):										
Personal income	5,300	7,600	9,300	15,100	25,200	42,100	50,200	59,400	64,200	506,100
Gross state revenue	424	608	744	1,208	2,016	3,368	4,016	4,752	5,136	40,488
MEGA cost	0	109	173	276	439	716	609	659	686	6,241
State revenue net of MEGA cost*	424	499	571	932	1,577	2,652	3,407	4,093	4,450	34,247
Adjusted for inflation (thousands of 2000 dollars):										
Personal income	5,300	6,736	7,724	11,750	18,278	29,410	33,275	35,669	37,449	325,929
Gross state revenue	424	539	618	940	1,462	2,353	2,662	2,854	2,996	26,074
MEGA cost	0	96	144	215	318	500	404	396	400	4,061
State revenue net of MEGA cost*	424	443	474	725	1,144	1,853	2,258	2,458	2,596	22,013

*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.