

**The Economic Effects on Michigan of the  
AutoAlliance International, Inc. Facility Expansion Decision**

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## Abstract

*AutoAlliance International, Inc. is considering retooling its facility to produce two all-new vehicles for Mazda Motors and Ford to maintain current production levels initially and to expand production in the future. The facility would employ an additional 3,350 people by 2005. We estimate that by 2023, this expansion will have generated a total of 9,673 jobs in the state. Total state government revenues through 2023, net of MEGA costs and adjusted for inflation, would increase by \$758,834,000 (2002 dollars) due to the expansion of AutoAlliance International, Inc.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of AutoAlliance International, Inc. retooling its facility to produce two all-new vehicles for Mazda Motors and Ford to maintain current production levels initially and to expand production in the future (SIC 3714). Investment activity would take place between 2003 and 2004, with an investment of \$644 million. The facility would employ an additional 3,350 people by 2005.

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 2003 to 2023, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2004 to 2023 equal to 69 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 513 jobs in 2003 and 1,989 jobs in 2004; almost all of these jobs are temporary. In 2005, the first year of full operations, an additional 9,580 jobs are generated in the state. We estimate that by 2023, this expansion will have generated a total of 9,673 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 2.66 over the period 2005 to 2023. 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 AutoAlliance International, Inc. were to expand in Michigan under the incentive program, state personal income in 2005 would be higher by \$587 million (in current dollars) than it would be without the facility, and in 2023 it would be \$1,146.7 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$451.5 million in 2005 and \$632.6 million in 2023.

The gain in economic activity results in higher state government revenues. We estimate that in 2005, the first year of full operations, the facility would generate \$46,960,000 in additional gross state government revenue, and that the MEGA package would provide a \$5,369,000 incentive to AutoAlliance International, Inc. Thus, the AutoAlliance International, Inc. facility expansion would increase state government revenues in 2005 by \$41,591,000, net of MEGA incentive costs.

Over the period 2003 to 2023, gross state government revenue is projected to increase by \$1,309,160,000 (in current dollars) due to the expansion of AutoAlliance International, Inc. The MEGA incentive package for AutoAlliance International, Inc. is forecast to cost \$146,618,000 over the period, resulting in a net increase in state government revenue of \$1,162,542,000. Adjusted for inflation, the total net increase in state government revenue from 2003 to 2023 would be \$758,834,000 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 AutoAlliance International, Inc. Facility Expansion  
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2003	2004	2005	2010	2015	2020	2023	Total 2003-2023
Total Employment	6,382	7,614	9,580	8,356	8,607	9,280	9,673	—
Manufacturing	2,509	2,663	3,973	3,625	3,646	3,732	3,775	—
Nonmanufacturing	3,873	4,951	5,607	4,731	4,961	5,548	5,898	—
Retail Trade	893	1,022	1,314	1,036	1,050	1,146	1,207	—
Services	1,411	1,820	1,927	1,448	1,594	1,943	2,164	—
Other	1,569	2,109	2,366	2,247	2,317	2,459	2,527	—
In current dollars (thousands):								
Personal income	326,700	432,600	587,000	686,300	818,700	1,010,300	1,146,700	16,364,500
Gross state revenue	26,136	34,608	46,960	54,904	65,496	80,824	91,736	1,309,160
MEGA cost	0	3,014	5,369	6,386	7,666	9,234	10,310	146,618
State revenue net of MEGA cost*	26,136	31,594	41,591	48,518	57,830	71,590	81,426	1,162,542
Adjusted for inflation (thousands of 2002 dollars):								
Personal income	271,255	342,303	451,472	480,822	531,615	594,474	632,552	10,672,800
Gross state revenue	21,700	27,384	36,118	38,466	42,529	47,558	50,604	853,824
MEGA cost	0	2,385	4,129	4,474	4,978	5,434	5,687	94,990
State revenue net of MEGA cost*	21,700	24,999	31,989	33,992	37,551	42,124	44,917	758,834

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