

The Economic Effects on Michigan of the
Axle Tech LLC Expansion

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

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Abstract

Axle Tech LLC is considering expanding its research and development facility in Troy, Michigan. This facility would provide research and development support for heavy duty axle operations. The new facility would employ up to 50 people by the end of 2007. We estimate that by 2008, this location will have generated a total of 137 jobs in the state. Total state government revenues through 2008, net of MEGA costs and adjusted for inflation, would increase by 2.36 million (2002 dollars) due to the location of the Axle Tech LLC.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Axle Tech LLC locating a research and development facility in Troy. Investment activity would take place between 2002 and 2006 with an investment of \$5.1 million. The facility would employ an additional 50 people and would be at full production by 2007.

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 2002 to 2008, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2003 to 2008, and 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 for the period 2003 to 2008.

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 2007, the first year of full operations, an additional 150 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 2.0 over the period 2002 to 2008. 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 Axle Tech LLC were to locate in Michigan under the incentive program, state personal income in 2007 would be higher by \$11.3 million (in current dollars) than it would be without the facility, and in 2008, it would be \$11.4 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$10.3 million in 2007 and \$10.1 million in 2008.

The gain in economic activity results in higher government revenues. We estimate that in 2008, the first year of full operations without investment activity, the facility would generate \$0.9 million in additional gross state revenue, and that the MEGA package would provide a \$0.3 million incentive to Axle Tech LLC. Thus, the new Axle Tech LLC facility would increase state revenues in 2008 by \$0.6 million, net of MEGA costs.

Over the period 2002 to 2008 state government revenue is projected to increase by \$4.0 million (in current dollars) due to the new Axle Tech LLC facility. The MEGA incentive package for Axle Tech LLC is forecast to cost \$1.4 million over the period, resulting in a net increase in state government revenue of \$2.6 million. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2008 would be \$2.4 million in 2002 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.

Axle Tech LLC
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	2007	2008	Total
Total Employment	13	63	90	114	134	150	137	
Manufacturing	2	21	31	40	47	53	50	
Non-Manufacturing	11	42	59	74	87	97	87	
Retail Trade	2	9	13	17	20	23	20	
Services	3	16	22	28	34	37	34	
Other	6	17	24	29	33	37	33	
In Current Dollars (Thousands):								
Personal Income	\$580	\$3,571	\$5,554	\$7,629	\$9,491	\$11,320	\$11,410	\$49,555
Gross State Revenue	46	286	444	610	759	906	913	3,964
Mega Cost	0	116	168	220	269	319	320	1,412
State Revenue Net of MEGA Cost*	\$46	\$170	\$276	\$390	\$490	\$587	\$593	\$2,552
Adjusted for Inflation (Thousands of 2002 Dollars):								
Personal Income	\$580	\$3,503	\$5,341	\$7,192	\$8,772	\$10,258	\$10,138	\$45,784
Gross State Revenue	46	281	427	575	702	821	811	3,663
Mega Cost	0	113	162	208	249	289	284	1,305
State Revenue Net of MEGA Cost*	\$46	\$168	\$265	\$367	\$453	\$532	\$527	\$2,358

* 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.

Axle Tech LLC
Summary Estimates
(all estimates in 2002 dollars)

TOTAL JOBS CREATED	137
Direct	50
Indirect	87
NET POSITIVE STATE REVENUE IMPACT	\$2,358,000
Revenue Foregone	\$1,305,000
Revenue Gain	\$3,663,000
Personal Income Generated Over Life of MEGA Agreement	\$45,784,000
Average Weekly Wage	\$1,538