

**The Economic Effects on Michigan
of the Behr America, Inc. Facility Location Decision**

**George A. Fulton
Peter Nicolas
Donald R. Grimes**

**University of Michigan
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Abstract

Behr America, Inc. is considering building a new manufacturing facility in Michigan to provide clutches and fans to the automotive industry. The new facility would employ 124 people by 2002. We estimate that by 2019, this location will have generated a total of 468 jobs in the state. Total state government revenues through 2019, net of MEGA costs and adjusted for inflation, would increase by \$23,641,000 (1999 dollars) due to the location of Behr America, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Behr America, Inc. building a new manufacturing facility in the state to provide clutches and fans to the automotive industry (SIC 3714). Investment activity would take place in 1999, with an investment of \$11.5 million, and production would begin in May 2000. The new facility would employ 124 people by 2002.

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 1999 to 2019, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2000 to 2019, and a tax credit to the company for the same period equal to the state income tax rate on the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 100 percent of the maximum employment credit available to a company.

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 of the facility is expected to generate a total of 83 jobs in 1999; almost all of these jobs are temporary. In 2002, the first year of full operations, an additional 375 jobs are generated in the state. We estimate that by 2019, this facility addition will have generated a total of 468 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 3.2 over the period 2002 to 2019. 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 Behr America, Inc. were to locate in Michigan under the incentive program, state personal income in 2002 would be higher by \$20 million (in current dollars) than it would be without the facility, and in 2019 it would be \$48.1 million higher. Adjusted for inflation, these numbers in 1999 dollars would be \$16.2 million in 2002 and \$25.5 million in 2019.

The gain in economic activity results in higher state government revenues. We estimate that in 2002, the first year of full operations, the facility would generate \$1,600,000 in additional gross state government revenue, and that the MEGA package would provide a \$214,000 incentive to Behr America, Inc. Thus, the Behr America, Inc. facility location would increase state government revenues in 2002 by \$1,386,000, net of MEGA incentive costs.

Over the period 1999 to 2019, gross state government revenue is projected to increase by \$47,744,000 (in current dollars) due to the location of Behr America, Inc. The MEGA incentive package for Behr America, Inc. is forecast to cost \$11,115,000 over the period, resulting in a net increase in state government revenue of \$36,629,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2019 would be \$23,641,000 in 1999 dollars.

These calculations do not include any revenue losses due to the property tax abatement or the Capital Acquisition Deduction. If the cost of the abatement or the CAD 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 Behr America, Inc. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2002	2005	2010	2015	2019	Total 1999-2019
Total Employment	83	115	276	375	359	377	425	468	—
Manufacturing	12	76	123	157	149	146	149	152	—
Nonmanufacturing	71	39	153	218	210	231	276	316	—
Retail Trade	10	13	39	53	47	48	53	59	—
Services	18	12	57	81	76	86	111	135	—
Other	43	14	57	84	87	97	112	122	—
In current dollars (thousands):									
Personal income	3,400	5,900	13,800	20,000	23,500	29,600	38,700	48,100	596,800
Gross state revenue	272	472	1,104	1,600	1,880	2,368	3,096	3,848	47,744
MEGA cost	0	145	199	214	500	591	705	814	11,115
State revenue net of MEGA cost*	272	327	905	1,386	1,380	1,777	2,391	3,034	36,629
Adjusted for inflation (thousands of 1999 dollars):									
Personal income	3,400	5,529	11,753	16,246	17,207	19,637	22,814	25,517	385,215
Gross state revenue	272	442	940	1,300	1,376	1,571	1,825	2,042	30,817
MEGA cost	0	136	169	174	366	392	416	432	7,176
State revenue net of MEGA cost*	272	306	771	1,126	1,010	1,179	1,409	1,610	23,641

*These estimates do not include any state government revenue losses due to the property tax abatement or the CAD deduction.