

**The Economic Effects on Michigan
of the Flagstar Bank Facility Expansion Decision**

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

**University of Michigan
May 12, 1999**

Abstract

Flagstar Bank is considering building a new facility in Troy, Michigan to house its National Headquarters staff as well as its mortgage-servicing department. The new facility would employ 2,600 people by 2006. We estimate that by 2016, this expansion will have generated a total of 6,718 jobs in the state. Total state government revenues through 2016, net of MEGA costs and adjusted for inflation, would increase by \$209,134,000 (1999 dollars) due to the expansion of Flagstar Bank.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Flagstar Bank building a new facility in Troy, Michigan to house its National Headquarters staff as well as its mortgage-servicing department (SIC 6035). Investment activity would take place between 1999 and 2006, with an investment of \$47.1 million, and production would begin in April 2001. The new facility would employ 2,600 people 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 1999 to 2016, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2002 to 2016 equal to the state income tax rate on the payroll (gross wages) of the additional employees hired at the facility as a result of the expansion. 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. All of the jobs generated in 1999 and 2000 are due to the construction of the facility, almost all of which are temporary. In 2007, the first year of full operations without investment activity, an additional 6,549 jobs are generated in the state. We estimate that by 2016, this facility addition will have generated a total of 6,718 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 2.5 over the period 2007 to 2016. 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 Flagstar Bank were to expand in Michigan under the incentive program, state personal income in 2007 would be higher by \$331.8 million (in current dollars) than it would be without the facility, and in 2016 it would be \$492.8 million higher. Adjusted for inflation, these numbers in 1999 dollars would be \$201.3 million in 2007 and \$246.1 million in 2016.

The gain in economic activity results in higher state government revenues. We estimate that in 2007, the first year of full operations without investment activity, the facility would generate \$26,544,000 in additional gross state government revenue, and that the MEGA package would provide a \$2,545,000 incentive to Flagstar Bank. Thus, the Flagstar Bank facility expansion would increase state government revenues in 2007 by \$23,999,000, net of MEGA incentive costs.

Over the period 1999 to 2016, gross state government revenue is projected to increase by \$401,640,000 (in current dollars) due to the expansion of Flagstar Bank. The MEGA incentive package for Flagstar Bank is forecast to cost \$36,326,000 over the period, resulting in a net increase in state government revenue of \$365,314,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2016 would be \$209,134,000 in 1999 dollars.

These calculations do not include any revenue losses due to the Capital Acquisition Deduction. If the cost of the Capital Acquisition Deduction 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 Flagstar Bank Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2002	2003	2004	2005	2006	2007	2010	2016	Total 1999-2016
Total Employment	233	431	1,645	3,031	4,593	6,247	6,691	6,549	6,336	6,718	—
Manufacturing	9	14	19	28	25	10	0	0	0	0	—
Nonmanufacturing	224	417	1,626	3,003	4,568	6,237	6,691	6,549	6,336	6,718	—
Finance, Insurance, and Real Estate	6	10	819	1,514	2,310	3,172	3,436	3,426	3,410	3,420	—
Retail Trade	28	51	155	279	411	542	555	514	438	445	—
Services	42	78	473	876	1,331	1,811	1,948	1,892	1,839	2,102	—
Other	148	278	179	334	516	712	752	717	649	751	—
In current dollars (thousands):											
Personal income	9,100	18,700	59,800	117,000	188,400	271,800	315,100	331,800	371,900	492,800	5,020,500
Gross state revenue	728	1,496	4,784	9,360	15,072	21,744	25,208	26,544	29,752	39,424	401,640
MEGA cost	0	0	295	690	1,146	1,700	2,460	2,545	2,824	3,529	36,326
State revenue net of MEGA cost*	728	1,496	4,489	8,670	13,926	20,044	22,748	23,999	26,928	35,895	365,314
Adjusted for inflation (thousands of 1999 dollars):											
Personal income	9,100	15,994	45,745	84,359	129,441	179,339	198,712	201,292	209,867	246,114	2,871,617
Gross state revenue	728	1,280	3,660	6,749	10,355	14,347	15,897	16,103	16,790	19,689	229,729
MEGA cost	0	0	226	497	787	1,122	1,551	1,544	1,594	1,762	20,595
State revenue net of MEGA cost*	728	1,280	3,434	6,252	9,568	13,225	14,346	14,559	15,196	17,927	209,134

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