

**The Economic Effects on Michigan of
the General Motors–Flint Facility Retention Decision**

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November 30, 2004**

Abstract

General Motors Corporation is considering major investments in its operations in Flint, Michigan (SIC 3711). The investments are related to two major areas: the production of the next generation of heavy duty pickup trucks, and development of a new global V6 engine. The facility would retain 2,862 workers starting in 2006. We estimate that by 2015, these projects will have retained a total of 10,917 jobs in the state. Total state government revenues through 2015, net of MEGA costs and adjusted for inflation, would increase by \$517,722,000 (2004 dollars) due to the retention of GM-Flint.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if General Motors Corporation makes major investments in its operations in Flint, Michigan (SIC 3711). The investments are related to two major areas: the production of the next generation of heavy duty pickup trucks, and development of a new global V6 engine. Investment activity would take place between 2005 and 2008, with an investment of \$400 million. The facility would retain 2,862 workers starting in 2006.

The estimates of the benefits include the total number of jobs retained 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 2005 to 2015, are shown in the attached table. The MEGA incentive package includes tax credits to the company calculated as a percentage of the state income tax rate on the payroll (gross wages) of employees retained at the facility. For the GM-Flint retention, this percentage would be allocated as follows: for activities related to the development of the new global V6 engine, 100 percent for the period 2006 to 2015; and for activities related to the truck production, 60 percent in 2006 and 2007 and 50 percent from 2008 to 2015.

The total employment effects, reported in the first line of the table, include the direct jobs retained 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 investment activity is expected to generate a total of 1,425 jobs in 2005 and 502 jobs in 2006; almost all of these jobs are temporary. In 2009, the first year of full operations without investment activity, 11,949 jobs are retained in the state. We estimate that by 2015, these projects will have retained a total of 10,917 jobs in the state. The total number of jobs retained (direct plus spin-off) for every direct job retained constitutes the "employment multiplier." The employment multiplier for the retention averages 3.9 over the period 2009 to 2015. Sectoral detail on the employment retention 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 GM-Flint were to retain its operations in Michigan under the incentive program, state personal income in 2009 would be higher by \$957.6 million (in current dollars) than it would be without the retention, and in 2015 it would be \$1,106.9 million higher. Adjusted for inflation, these numbers in 2004 dollars would be \$701.3 million in 2009 and \$743.7 million in 2015.

The gain in economic activity results in higher state government revenues. We estimate that in 2009, the first year of full operations without investment activity, the facility retention would generate \$73,639,000 in gross state government revenue, and that the MEGA package would provide a \$3,609,000 incentive to GM-Flint. Thus, the GM-Flint retention would increase state government revenues in 2009 by \$70,030,000, net of MEGA incentive costs.

Over the period 2005 to 2015, gross state government revenue is projected to increase by \$757,088,000 (in current dollars) due to the retention of GM-Flint. The MEGA incentive package for GM-Flint is forecast to cost \$39,121,000 over the period, resulting in a net increase in state government revenue of \$717,967,000. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2015 would be \$517,722,000 in 2004 dollars.

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 General Motors—Flint Facility Retention
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2015	Total 2005-2015
Total Employment	1,425	12,833	13,196	12,523	11,949	11,511	10,917	—
Manufacturing	126	4,717	4,944	4,758	4,612	4,504	4,348	—
Nonmanufacturing	1,299	8,116	8,252	7,765	7,337	7,007	6,569	—
Retail Trade	160	1,824	1,843	1,719	1,609	1,522	1,372	—
Services	354	3,024	2,912	2,627	2,405	2,238	2,081	—
Other	785	3,268	3,497	3,419	3,323	3,247	3,116	—
In current dollars (thousands):								
Personal income	70,600	775,800	901,400	935,300	957,600	976,300	1,106,900	9,845,100
Gross state revenue	5,429	59,659	69,318	71,925	73,639	75,078	85,121	757,088
MEGA cost	0	3,439	4,162	3,605	3,609	3,614	4,539	39,121
State revenue net of MEGA cost*	5,429	56,220	65,156	68,320	70,030	71,464	80,582	717,967
Adjusted for inflation (thousands of 2004 dollars):								
Personal income	55,814	627,954	698,608	700,929	701,342	703,139	743,714	7,099,687
Gross state revenue	4,292	48,290	53,723	53,902	53,933	54,072	57,192	545,966
MEGA cost	0	2,784	3,226	2,702	2,643	2,603	3,049	28,244
State revenue net of MEGA cost*	4,292	45,506	50,497	51,200	51,290	51,469	54,143	517,722

*These estimates do not include any state government revenue losses due to the Investment Tax Credit.