

**The Economic Effects on Michigan of the
General Motors Corporation Retention Decision**

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Abstract

General Motors Corporation is considering creating an enhanced product program and new facilities to support it in Lansing, Michigan. The new manufacturing site would include a vehicle assembly center and a regional metal stamping facility that would support both the on-site vehicle assembly center as well as other GM vehicle operations in the region. A new family of vehicles is planned for production in the new facility. The new facility would employ 2,800 existing Michigan-based General Motors employees by 2005. We estimate that by 2020, this program will have maintained a total of 28,561 jobs in the state. Through 2020, \$1,741,667,000 (2000 dollars) of total state government revenues, net of MEGA costs and adjusted for inflation, would be maintained due to the retention of economic activity by General Motors Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of General Motors Corporation's creating an enhanced product program and new facilities to support it in Lansing, Michigan. The new manufacturing site would include a vehicle assembly center and a regional metal stamping facility that would support both the on-site vehicle assembly center as well as other GM vehicle operations in the region. A new family of vehicles is planned for production in the new facility (SIC 3711). Investment activity would take place between 2000 and 2002, with an investment of \$1.06 billion. The facility would employ 2,800 existing Michigan-based General Motors employees and be at full production by 2005.

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 maintained as a result of the job retention. The estimates also account for income maintenance provisions available to laid-off auto workers. Benefits net of the MEGA incentive package, from 2000 to 2020, are shown in the attached table. The MEGA incentive package includes relief from 50 percent of the single business tax for the period 2003 to 2022; it also includes a tax credit to the company for the same period equal to 50 percent of the state income tax rate on the payroll (gross wages) of employees retained by the company as a result of the project.

The total employment effects, reported in the first line of the table, include the direct jobs retained at the facility itself plus the spin-off jobs retained. 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 344 jobs in 2000, 2,853 jobs in 2001, and 5,310 jobs in 2002; almost all of these jobs are temporary. In 2005, the first year of full operations, 24,950 jobs are maintained in the state.

We estimate that by 2020, this program will have maintained a total of 28,561 jobs in the state. 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 General Motors Corporation were to locate the proposed project in Michigan under the incentive program, state personal income in 2005 would be higher by \$1.5 billion (in current dollars) than it would be without the facility, and in 2020 it would be \$3.28 billion higher. Adjusted for inflation, these numbers in 2000 dollars would be \$1.11 billion in 2005 and \$1.65 billion in 2020.

The retention of economic activity results in higher state government revenues. We estimate that in 2005, the first year of full operations, the retention would maintain \$120,312,000 in gross state government revenue, and that the MEGA package would provide a \$5,046,000 incentive to General Motors Corporation. Thus, the General Motors Corporation facility location would maintain \$115,266,000 in state government revenues in 2005, net of MEGA incentive costs.

Over the period 2000 to 2020, gross state government revenue is projected to be higher by \$3,028,096,000 (in current dollars) due to the proposed General Motors Corporation project. The MEGA incentive package for General Motors Corporation is forecast to cost \$102,435,000 over the period, resulting in a net retention of state government revenue of \$2,925,661,000. Adjusted for inflation, the total net retention of state government revenue from 2000 to 2020 would be \$1,741,667,000 in 2000 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 retention by 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 General Motors Corporation Facility Retention
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator (RETENTION)	2000	2001	2002	2003	2004	2005	2010	2015	2020	Total 2000-2020
Total Employment	344	2,853	5,310	1,650	9,789	24,950	23,562	25,417	28,561	—
Manufacturing	10	74	592	673	3,454	8,265	7,448	7,482	7,707	—
Nonmanufacturing	334	2,779	4,718	977	6,335	16,685	16,114	17,935	20,854	—
Retail Trade	37	320	606	249	1,399	3,697	3,197	3,330	3,694	—
Services	87	468	1,197	409	2,511	6,570	6,008	7,010	8,726	—
Other	210	1,991	2,915	319	2,425	6,418	6,909	7,595	8,434	—
In current dollars (thousands):										
Personal income	14,100	122,900	263,800	133,000	544,300	1,503,900	1,974,700	2,509,300	3,276,200	37,851,200
Gross state revenue	1,128	9,832	21,104	10,640	43,544	120,312	157,976	200,744	262,096	3,028,096
MEGA cost	0	0	0	2,045	2,575	5,046	5,675	6,460	7,391	102,435
State revenue net of MEGA cost*	1,128	9,832	21,104	8,595	40,969	115,266	152,301	194,284	254,705	2,925,661
Adjusted for inflation (thousands of 2000 dollars):										
Personal income	14,100	99,686	203,769	91,969	411,016	1,112,181	1,255,771	1,427,757	1,647,545	22,543,706
Gross state revenue	1,128	7,975	16,302	7,358	32,881	88,974	100,462	114,221	131,804	1,803,496
MEGA cost	0	0	0	1,414	1,944	3,731	3,609	3,676	3,717	61,829
State revenue net of MEGA cost*	1,128	7,975	16,302	5,944	30,937	85,243	96,853	110,545	128,087	1,741,667

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