

**The Economic Effects on Michigan of the
J&L America, Inc. Expansion**

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

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Abstract

J&L America, Inc. is considering relocating and expanding its headquarters facility in Southfield, Michigan. The new facility would employ up to 300 additional people by the end of 2010. We estimate that by 2013, this location will have generated a total of 454 jobs in the state. Total state government revenues through 2013, net of MEGA costs and adjusted for inflation, would increase by \$8.0 million (2005 dollars) due to the location of the J&L America, Inc. project.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of J&L America, Inc. relocating and expanding its headquarters in Southfield. Investment activity would take place between 2006 and 2009 with an investment of \$11.8 million. The facility would employ an additional 300 people and would be at full production by 2010.

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 2006 to 2013, are shown in the attached table. The MEGA incentive package includes a tax credit to the company equal to 50 percent of the state income tax rate on the payroll (gross wages) of the first 50 new employees hired at the facility and a tax credit equal to 100 percent of the state income tax rate on the payroll (gross wages) of the subsequent 250 new employees hired at the facility for the period 2006 to 2013.

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 2010, the first year of full operations, an additional 450 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 1.19 over the period 2006 to 2013. 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 J&L America, Inc. were to locate in Michigan under the incentive program, state personal income in 2010 would be higher by \$25.7 million (in current dollars) than it would be without the facility, and in 2013, it would be \$30.5 million higher. Adjusted for inflation, these numbers in 2005 dollars would be \$23.1 million in 2010 and \$25.8 million in 2013.

The gain in economic activity results in higher government revenues. We estimate that in 2010, the first year of full operations without investment activity, the facility would generate \$1.98 million additional gross state revenue, and that the MEGA package would provide a \$630,000 incentive to J&L America, Inc. Thus, the new J&L America, Inc. facility would increase state revenues in 2010 by \$1.35 million, net of MEGA costs.

Over the period 2006 to 2013 state government revenue is projected to increase by \$12.83 million (in current dollars) due to the new J&L America, Inc. facility. The MEGA incentive package for J&L America, Inc. is forecast to cost \$3.89 million over the period, resulting in a net increase in state government revenue of \$8.94 million. Adjusted for inflation, the total net increase in state government revenue from 2006 to 2013 would be \$7.99 million in 2005 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.

J&L America, Inc.
Summary Estimates
(all estimates in 2005 dollars)

| | |
|---|---------------|
| TOTAL JOBS CREATED | 454 |
| Direct | 300 |
| Indirect | 154 |
| | |
| NET POSITIVE STATE REVENUE IMPACT | \$7,994,000 |
| Revenue Foregone | \$3,467,000 |
| Revenue Gain | \$11,461,000 |
| | |
| Personal Income Generated Over Life of MEGA Agreement | \$148,822,000 |
| | |
| Average Weekly Wage | \$831 |
| | |
| Statewide Employment Multiplier | 1.19 |

J&L America, Inc.
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package

| Economic/Fiscal Indicator | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|--|---------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Total Employment | 146 | 221 | 297 | 373 | 450 | 453 | 454 | 454 | |
| Manufacturing | 3 | 4 | 4 | 5 | 5 | 3 | 2 | 2 | |
| Non-Manufacturing | 143 | 217 | 293 | 368 | 445 | 450 | 452 | 452 | |
| Retail Trade | 13 | 19 | 25 | 31 | 38 | 38 | 37 | 37 | |
| Services | 40 | 60 | 82 | 104 | 127 | 129 | 131 | 132 | |
| Other | 90 | 138 | 186 | 233 | 280 | 283 | 284 | 283 | |
| In Current Dollars (Thousands): | | | | | | | | | |
| Personal Income | \$6,622 | \$10,800 | \$15,380 | \$20,360 | \$25,670 | \$27,500 | \$29,110 | \$30,460 | \$166,573 |
| Gross State Revenue | 510 | 832 | 1,184 | 1,568 | 1,977 | 2,118 | 2,241 | 2,345 | 12,827 |
| Mega Cost | 116 | 231 | 354 | 487 | 632 | 659 | 689 | 721 | 3,889 |
| State Revenue Net of MEGA Cost* | \$394 | \$601 | \$830 | \$1,081 | \$1,345 | \$1,459 | \$1,552 | \$1,624 | \$8,938 |
| Adjusted for Inflation (Thousands of 2005 Dollars): | | | | | | | | | |
| Personal Income | \$6,467 | \$10,328 | \$14,407 | \$18,683 | \$23,083 | \$24,236 | \$25,149 | \$25,798 | \$148,822 |
| Gross State Revenue | 498 | 796 | 1,109 | 1,439 | 1,778 | 1,867 | 1,936 | 1,986 | 11,461 |
| Mega Cost | 113 | 221 | 332 | 447 | 568 | 581 | 595 | 610 | 3,467 |
| State Revenue Net of MEGA Cost* | \$385 | \$575 | \$777 | \$992 | \$1,210 | \$1,286 | \$1,341 | \$1,376 | \$7,994 |

* 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.