

**The Economic Effects on Michigan of the  
Jatco USA Relocation and Expansion**

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

May 18, 2004

### Abstract

*Jatco USA is considering building a manufacturing facility in Wixom, Michigan. This facility would remanufacture transmissions for Japanese automakers. The new facility would employ up to 106 people by the end of 2007. We estimate that by 2012, this location will have generated a total of 212 jobs in the state. Total state government revenues through 2012, net of MEGA costs and adjusted for inflation, would increase by \$6.2 million (2004 dollars) due to the relocation and expansion of Jatco USA.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Jatco USA locating a manufacturing facility in Wixom. Investment activity would take place between 2004 and 2005 with an investment of \$7.3 million. The facility would employ an additional 106 people and would be at full production by 2007.

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 2012, are shown in the attached table. The MEGA incentive package includes a tax credit to the company equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility for the period 2006 to 2012.

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 2007, the first year of full operations, an additional 251 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 2.18 over the period 2006 to 2012. 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 Jatco USA were to locate in Michigan under the incentive program, state personal income in 2007 would be higher by \$13.5 million (in current dollars) than it would be without the facility, and in 2012, it would be \$16.2 million higher. Adjusted for inflation, these numbers in 2004 dollars would be \$12.8 million in 2007 and \$14.2 million in 2012.

The gain in economic activity results in higher government revenues. We estimate that in 2007, the first year of full operations without investment activity, the facility would generate \$1 million in additional gross state revenue, and that the MEGA package

would provide a \$146,000 incentive to Jatco USA. Thus, the new Jatco USA facility would increase state revenues in 2007 by \$893,000, net of MEGA costs.

Over the period 2006 to 2012 state government revenue is projected to increase by \$7.8 million (in current dollars) due to the new Jatco USA facility. The MEGA incentive package for Jatco USA is forecast to cost \$1.1 million over the period, resulting in a net increase in state government revenue of \$6.7 million. Adjusted for inflation, the total net increase in state government revenue from 2006 to 2012 would be \$6.2 million in 2004 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.

**Jatco USA, Inc.**  
**Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2006	2007	2008	2009	2010	2011	2012	Total
<b>Total Employment</b>								
Manufacturing	235	251	242	233	224	219	212	
Non-Manufacturing	93	121	119	118	116	115	114	
Retail Trade	142	130	123	115	108	104	98	
Services	35	35	34	32	31	30	29	
Other	67	55	53	49	46	44	42	
	40	40	36	34	31	30	27	
<b>In Current Dollars (Thousands):</b>								
Personal Income	\$11,110	\$13,490	\$14,250	\$14,800	\$15,290	\$15,810	\$16,200	\$100,950
Gross State Revenue	855	1,039	1,097	1,140	1,177	1,217	1,247	7,772
Mega Cost	103	146	154	154	159	167	175	1,058
State Revenue Net of MEGA Cost*	\$752	\$893	\$943	\$986	\$1,018	\$1,050	\$1,072	\$6,714
<b>Adjusted for Inflation (Thousands of 2004 Dollars):</b>								
Personal Income	\$10,756	\$12,847	\$13,347	\$13,632	\$13,850	\$14,087	\$14,198	\$92,717
Gross State Revenue	828	990	1,027	1,050	1,066	1,084	1,093	7,138
Mega Cost	100	139	145	142	144	148	153	971
State Revenue Net of MEGA Cost*	\$728	\$851	\$882	\$908	\$922	\$936	\$940	\$6,167

\* 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.