

**The Economic Effects on Michigan of the
L & W Engineering Facility Location Decision**

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Abstract

L & W Engineering is considering constructing a new 75,000 square foot building on 15 acres in the Village of Dundee, Michigan for use as an automotive metal tube fabrication and assembly facility. The facility would employ an additional 200 people by 2005. We estimate that by 2014, this location will have generated a total of 421 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by \$18,683,000 (2002 dollars) due to the location of L & W Engineering.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of L & W Engineering constructing a new 75,000 square foot building on 15 acres in the Village of Dundee, Michigan for use as an automotive metal tube fabrication and assembly facility (SIC 3465). Investment activity would take place between 2003 and 2005, with an investment of \$19.68 million. The facility would employ an additional 200 people by 2005.

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 2003 to 2014, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility as a result of the project for the period 2004 to 2013, and equal to 50 percent in the year 2014.

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. The investment activity is expected to generate a total of 93 jobs in 2003, 14 jobs in 2004, and 9 jobs in 2005; almost all of these jobs are temporary. In 2006, the first year of full operations without investment activity, an additional 458 jobs are generated in the state. We estimate that by 2014, this location will have generated a total of 421 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 location averages 2.1 over the period 2006 to 2014. 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 L & W Engineering were to locate in Michigan under the incentive program, state

personal income in 2006 would be higher by \$30 million (in current dollars) than it would be without the facility, and in 2014 it would be \$37.6 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$22.1 million in 2006 and \$24.5 million in 2014.

The gain in economic activity results in higher state government revenues. We estimate that in 2006, the first year of full operations without investment activity, the facility would generate \$2,400,000 in additional gross state government revenue, and that the MEGA package would provide a \$274,000 incentive to L & W Engineering. Thus, the L & W Engineering facility location would increase state government revenues in 2006 by \$2,126,000, net of MEGA incentive costs.

Over the period 2003 to 2014, gross state government revenue is projected to increase by \$29,336,000 (in current dollars) due to the location of L & W Engineering. The MEGA incentive package for L & W Engineering is forecast to cost \$2,984,000 over the period, resulting in a net increase in state government revenue of \$26,352,000. Adjusted for inflation, the total net increase in state government revenue from 2003 to 2014 would be \$18,683,000 in 2002 dollars. These calculations do not include any revenue losses due to the Investment Tax Credit. If the costs of the tax credit 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 L & W Engineering Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2003	2004	2005	2006	2010	2014	Total 2003-2014
Total Employment	348	385	492	458	412	421	—
Manufacturing	123	172	224	217	205	207	—
Nonmanufacturing	225	213	268	241	207	214	—
Retail Trade	43	48	60	53	43	43	—
Services	69	75	93	80	63	68	—
Other	113	90	115	108	101	103	—
In current dollars (thousands):							
Personal income	16,900	21,800	29,300	30,000	32,700	37,600	366,700
Gross state revenue	1,352	1,744	2,344	2,400	2,616	3,008	29,336
MEGA cost	0	128	198	274	314	181	2,984
State revenue net of MEGA cost**	1,352	1,616	2,146	2,126	2,302	2,827	26,352
Adjusted for inflation (thousands of 2002 dollars):							
Personal income	13,813	17,124	22,164	22,134	22,841	24,501	259,726
Gross state revenue	1,105	1,370	1,773	1,771	1,827	1,960	20,778
MEGA cost	0	100	150	202	219	118	2,095
State revenue net of MEGA cost*	1,105	1,270	1,623	1,569	1,608	1,842	18,683

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