

**The Economic Effects on Michigan
of the L & W, Inc. Facility Location Decision**

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Abstract

L & W, Inc. is considering building a new facility in Michigan to supply its Toledo, Ohio Jeep plant with floor pan assemblies. The initial operation will consist primarily of assembly of the units, with design and stamping of components to follow within two to three years of construction. The new facility would employ 340 people by 2006. We estimate that by 2013, this location will have generated a total of 662 jobs in the state. Total state government revenues through 2013, net of MEGA costs and adjusted for inflation, would increase by \$25,337,000 (1998 dollars) due to the location of L & W, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of L & W, Inc.'s building a new facility in Michigan to supply its Toledo, Ohio Jeep plant with floor pan assemblies (SIC 3465). The initial operation will consist primarily of assembly of the units, with design and stamping of components to follow within two to three years of construction. Investment activity would take place between 1999 and 2004, with an investment of \$50 million, and production would begin in August 2000. The new facility would employ 340 people by 2006.

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 1999 to 2013, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2001 through 2012 equal to 4.4 percent of the payroll (gross wages) of employees hired at the facility as a result of the location, and equal to 2.2 percent for the year 2013. The payroll tax credit represents 100 percent of the maximum employment credit available to a company for the period 2001 through 2012, and represents 50 percent of the maximum credit available in 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 generated from two sources, increased purchases from Michigan suppliers and spending by people who receive income due to the increased economic activity. The construction of the facility is expected to generate a total of 101 jobs in 1999, 108 jobs in 2000, 98 jobs in 2002, and 59 jobs in 2003; almost all of these jobs are temporary. In 2006, the first year of full operations, an additional 637 jobs are generated in the state. We estimate that by 2013, this facility addition will have generated a total of 662 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 1.9 over the period 2006 to 2013. 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, Inc. were to locate in Michigan under the incentive program, state personal income in 2006 would be higher by \$42.4 million (in current dollars) than it would be without the facility, and in 2013 it would be \$57.3 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$28.3 million in 2006 and \$33 million in 2013.

The gain in economic activity results in higher state government revenues. We estimate that in 2006, the first year of full operations, the facility would generate \$3,392,000 in additional gross state government revenue, and that the MEGA package would provide a \$428,000 incentive to L & W, Inc. Thus, the L & W, Inc. facility location would increase state government revenues in 2006 by \$2,964,000, net of MEGA incentive costs.

Over the period 1999 to 2013, gross state government revenue is projected to increase by \$44,000,000 (in current dollars) due to the location of L & W, Inc. The MEGA incentive package for L & W, Inc. is forecast to cost \$4,832,000 over the period, resulting in a net increase in state government revenue of \$39,168,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2013 would be \$25,337,000 in 1998 dollars. These calculations do not include any revenue losses due to the property tax abatement. If the cost of the abatement 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, Inc. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2002	2003	2004	2005	2006	2010	2013	Total 1999-2013
Total Employment	101	181	275	597	503	535	573	637	634	662	—
Manufacturing	3	73	117	213	241	288	315	354	349	351	—
Nonmanufacturing	98	108	158	384	262	247	258	283	285	311	—
Retail Trade	12	20	35	76	57	59	62	67	62	64	—
Services	16	28	61	139	81	83	86	94	94	106	—
Other	70	60	62	169	124	105	110	122	129	141	—
In current dollars (thousands):											
Personal income	4,000	8,700	13,700	30,300	29,200	32,900	36,800	42,400	49,900	57,300	550,000
Gross state revenue	320	696	1,096	2,424	2,336	2,632	2,944	3,392	3,992	4,584	44,000
MEGA cost	0	0	96	185	250	317	385	428	490	273	4,832
State revenue net of MEGA cost*	320	696	1,000	2,239	2,086	2,315	2,559	2,964	3,502	4,311	39,168
Adjusted for inflation (thousands of 1998 dollars):											
Personal income	3,021	6,731	10,278	22,717	20,856	22,725	25,207	28,310	30,634	33,037	355,620
Gross state revenue	242	539	823	1,817	1,668	1,818	2,017	2,265	2,451	2,643	28,450
MEGA cost	0	0	72	138	178	219	264	286	301	157	3,113
State revenue net of MEGA cost*	242	539	751	1,679	1,490	1,599	1,753	1,979	2,150	2,486	25,337

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