

**The Economic Effects on Michigan of the
Lakeside Machine, Inc. Facility Location Decision**

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July 11, 2000

Abstract

Lakeside Machine, Inc. is considering building a new 130,000 square foot facility for the manufacture of intake and exhaust manifolds, housings, and drive-train components for automotive and heavy equipment OEMs. The new facility would employ an additional 90 people by 2003. We estimate that by 2010, this location will have generated a total of 276 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would increase by \$6,353,000 (2000 dollars) due to the location of Lakeside Machine, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Lakeside Machine, Inc. building a new 130,000 square foot facility for the manufacture of intake and exhaust manifolds, housings, and drive-train components for automotive and heavy equipment OEMs (SIC 3599). Investment activity would take place between 2000 and 2002, with an investment of \$9.13 million. The facility would employ an additional 90 people and be at full production by 2003.

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 2000 to 2010, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2002 to 2010; it also includes a tax credit to the company for the same period equal to 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.

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 activity is expected to generate a total of 30 jobs in 2000, 51 jobs in 2001, and 2 jobs in 2002; almost all of these jobs are temporary. In 2003, the first year of full operations, an additional 250 jobs are generated in the state. We estimate that by 2010, this location will have generated a total of 276 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 2.8 over the period 2003 to 2010. 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 Lakeside Machine, Inc. were to locate in Michigan under the incentive program, state personal income in 2003 would be higher by \$12.5 million (in current dollars) than it would be without the facility, and in 2010 it would be \$19.3 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$9.29 million in 2003 and \$12.66 million in 2010.

The gain in economic activity results in higher state government revenues. We estimate that in 2003, the first year of full operations, the facility would generate \$1,000,000 in additional gross state government revenue, and that the MEGA package would provide a \$248,000 incentive to Lakeside Machine, Inc. Thus, the Lakeside Machine, Inc. facility location would increase state government revenues in 2003 by \$752,000, net of MEGA incentive costs.

Over the period 2000 to 2010, gross state government revenue is projected to increase by \$11,376,000 (in current dollars) due to the location of Lakeside Machine, Inc. The MEGA incentive package for Lakeside Machine, Inc. is forecast to cost \$2,268,000 over the period, resulting in a net increase in state government revenue of \$9,108,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2010 would be \$6,353,000 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 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 Lakeside Machine, Inc. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2005	2010	Total 2000-2010
Total Employment	30	138	208	250	247	276	—
Manufacturing	3	33	84	98	93	91	—
Nonmanufacturing	27	105	124	152	154	185	—
Retail Trade	3	18	27	32	31	35	—
Services	6	36	56	69	70	88	—
Other	18	51	41	51	53	62	—
In current dollars (thousands):							
Personal income	1,300	5,900	9,800	12,500	14,200	19,300	142,200
Gross state revenue	104	472	784	1,000	1,136	1,544	11,376
MEGA cost	0	0	187	248	268	260	2,268
State revenue net of MEGA cost**	104	472	597	752	868	1,284	9,108
Adjusted for inflation (thousands of 2000 dollars):							
Personal income	1,300	4,820	7,694	9,294	9,822	12,658	99,049
Gross state revenue	104	386	616	743	786	1,012	7,924
MEGA cost	0	0	147	184	186	170	1,571
State revenue net of MEGA cost*	104	386	469	559	600	842	6,353

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