

**The Economic Effects on Michigan of the
Lear Corporation-Mendon Facility Expansion Decision**

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Abstract

Lear Corporation-Mendon is considering renovating and expanding its facility to accommodate increased design, engineering and manufacturing of automotive interior overhead systems for OEM production, including climate control, overhead lighting, visors and armrests. The facility would employ an additional 190 people by 2006. We estimate that by 2012, this expansion will have generated a total of 438 jobs in the state. Total state government revenues through 2012, net of MEGA costs and adjusted for inflation, would increase by \$12,116,000 (2002 dollars) due to the expansion of Lear Corporation-Mendon.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Lear Corporation-Mendon renovating and expanding its facility to accommodate increased design, engineering and manufacturing of automotive interior overhead systems for OEM production, including climate control, overhead lighting, visors and armrests (SIC 3714). Investment activity would take place between 2002 and 2003, with an investment of \$4 million. The facility would employ an additional 190 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 2002 to 2012, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2003 to 2012; 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 11 jobs in 2002 and 7 jobs in 2003; almost all of these jobs are temporary. In 2006, the first year of full operations, an additional 488 jobs are generated in the state. We estimate that by 2012, this expansion will have generated a total of 438 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 expansion averages 2.4 over the period 2006 to 2012. 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 Lear Corporation-Mendon were to expand in Michigan under the incentive program, state personal income in 2006 would be higher by \$26.2 million (in current dollars) than it would be without the facility, and in 2012 it would be \$32.1 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$19.7 million in 2006 and \$22.2 million in 2012.

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 \$2,096,000 in additional gross state government revenue, and that the MEGA package would provide a \$361,000 incentive to Lear Corporation-Mendon. Thus, the Lear Corporation-Mendon facility expansion would increase state government revenues in 2012 by \$1,735,000, net of MEGA incentive costs.

Over the period 2002 to 2012, gross state government revenue is projected to increase by \$19,864,000 (in current dollars) due to the expansion of Lear Corporation-Mendon. The MEGA incentive package for Lear Corporation-Mendon is forecast to cost \$3,272,000 over the period, resulting in a net increase in state government revenue of \$16,592,000. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2012 would be \$12,116,000 in 2002 dollars. These calculations do not include any revenue losses due to the Investment Tax Credit or the property tax abatement. If the costs of the tax credit or the tax 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 Lear Corporation-Mendon Facility Expansion
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	2010	2012	Total 2002-2012
Total Employment	66	232	227	347	488	441	438	—
Manufacturing	27	105	104	159	223	208	206	—
Nonmanufacturing	39	127	123	188	265	233	232	—
Retail Trade	8	28	27	41	56	45	44	—
Services	14	46	42	64	89	69	69	—
Other	17	53	54	83	120	119	119	—
In current dollars (thousands):								
Personal income	2,800	10,300	11,500	17,900	26,200	30,300	32,100	248,300
Gross state revenue	224	824	920	1,432	2,096	2,424	2,568	19,864
MEGA cost	0	180	188	267	361	382	393	3,272
State revenue net of MEGA cost*	224	644	732	1,165	1,735	2,042	2,175	16,592
Adjusted for inflation (thousands of 2002 dollars):								
Personal income	2,800	8,844	9,278	13,776	19,698	21,438	22,166	181,367
Gross state revenue	224	707	742	1,102	1,576	1,715	1,774	14,509
MEGA cost	0	154	152	205	272	270	272	2,393
State revenue net of MEGA cost*	224	553	590	897	1,304	1,445	1,502	12,116

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