The Economic Effects on Michigan of the General Motors Nodular Iron Redevelopment Decision

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Abstract

Consideration is being given to redeveloping the former General Motors Nodular Iron site in Saginaw, Michigan by constructing a new industrial building that would be leased by four automotive suppliers, B & W of Michigan, Inc., CMI-Schneible Co., Machining Enterprises, Inc., and Michigan Production Machining, Inc., that would support processing operations at Saginaw Metal Casting Operations. The facility would employ an additional 144 people by 2005. We estimate that by 2014, this location will have generated a total of 486 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by $11,937,000 (2003 dollars) due to the redevelopment of the former General Motors Nodular Iron site.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of redeveloping the former General Motors Nodular Iron site in Saginaw, Michigan by constructing a new industrial building that would be leased by four automotive suppliers, B & W of Michigan, Inc., CMI-Schneible Co., Machining Enterprises, Inc., and Michigan Production Machining, Inc., that would support processing operations at Saginaw Metal Casting Operations (SIC 3398, 3443, 3540, 3599). Investment activity would take place in 2004, with an investment of $65.8 million. The four suppliers would collectively employ an additional 144 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 2004 to 2014, are shown in the attached table. The MEGA incentive package includes a tax credit to three of the four suppliers for the period 2005 to 2014 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. In addition, the project would receive a $6 million Brownfield Credit in 2005.

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 496 jobs in 2004; almost all of these jobs are temporary. In 2006, an additional 435 jobs are generated in the state. We estimate that by 2014, this location will have generated a total of 486 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 redevelopment of the former General Motors Nodular Iron site averages 3.1 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 the former General Motors Nodular Iron site were to be redeveloped under the incentive program, state personal income in 2006 would be higher by $25.9 million (in current dollars) than it would be without the location, and in 2014 it would be $40.2 million higher. Adjusted for inflation, these numbers in 2003 dollars would be $18.9 million in 2006 and $25.5 million in 2014.

The gain in economic activity results in higher state government revenues. We estimate that in 2006, the new facility would generate $1,992,000 in additional gross state government revenue, and that the MEGA package would provide a $156,000 incentive to General Motors. Thus, the redevelopment of the former General Motors Nodular Iron site would increase state government revenues in 2006 by $1,836,000, net of MEGA incentive costs.

Over the period 2004 to 2014, gross state government revenue is projected to increase by $25,592,000 (in current dollars) due to the redevelopment of the former General Motors Nodular Iron site. The MEGA incentive package for General Motors is forecast to cost $1,818,000 over the period, and the Brownfield Credit is forecast to cost $6,000,000 over the period, resulting in a net increase in state government revenue of $17,774,000. Adjusted for inflation, the total net increase in state government revenue from 2004 to 2014 would be $11,937,000 in 2003 dollars.

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 General Motors Nodular Iron Redevelopment
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2004	2005	2006	2007	2010	2014	Total 2004-2014
Total Employment	496	322	435	426	429	486	—
Manufacturing	37	161	159	155	149	151	—
Nonmanufacturing	459	161	276	271	280	335	—
Retail Trade	55	41	50	47	45	50	—
Services	121	99	105	101	104	129	—
Other	283	21	121	123	131	156	—
In current dollars (thousands):							
Personal income	23,600	19,200	25,900	27,300	31,500	40,200	332,800
Gross state revenue	1,815	1,476	1,992	2,100	2,422	3,091	25,592
MEGA cost	0	144	156	162	183	224	1,818
Brownfield Credit cost	0	6,000	0	0	0	0	6,000
State revenue net of MEGA cost*	1,815	-4,668	1,836	1,938	2,239	2,867	17,774
Adjusted for inflation (thousands of 2003 dollars):							
Personal income	18,577	14,104	18,900	19,375	21,481	25,527	228,631
Gross state revenue	1,429	1,084	1,454	1,490	1,652	1,963	17,582
MEGA cost	0	106	114	115	125	142	1,238
Brownfield Credit cost	0	4,407	0	0	0	0	4,407
State revenue net of MEGA cost*	1,429	-3,429	1,340	1,375	1,527	1,821	11,937

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