

**The Economic Effects on Michigan of the
Magnesium Products Company of America Facility Expansion Decision**

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Abstract

Magnesium Products Company of America is considering expanding its operations in Michigan by building a new facility to produce magnesium components for automotive interiors and other automotive and non-automotive applications. The new facility would employ 91 people by 2001. We estimate that by 2009, this expansion will have generated a total of 157 jobs in the state. Total state government revenues through 2009, net of MEGA costs and adjusted for inflation, would increase by \$3,744,000 (1998 dollars) due to the expansion of Magnesium Products Company of America.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Magnesium Products Company of America expanding its operations in Michigan by building a new facility to produce magnesium components for automotive interiors and other automotive and non-automotive applications (SIC 3364). Investment activity would take place between 1999 and 2000, with an investment of \$22.82 million, and production would begin in July 2000. The new facility would employ 91 people by 2001.

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 2009, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2000 to 2009, and a tax credit to the company for the same period equal to 4.4 percent of the payroll (gross wages) of employees hired at the facility as a result of the expansion. The payroll tax credit represents 100 percent of the maximum employment credit available to a company.

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 43 jobs in 1999 and 157 jobs in 2000; almost all of these jobs are temporary. In 2001, the first year of full operations, an additional 162 jobs are generated in the state. We estimate that by 2009, this facility addition will have generated a total of 157 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 1.7 over the period 2001 to 2009. 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 Magnesium Products Company of America were to expand in Michigan under the incentive program, state personal income in 2001 would be higher by \$8.1 million (in current dollars) than it would be without the facility, and in 2009 it would be \$11.1 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$5.8 million in 2001 and \$7.0 million in 2009.

The gain in economic activity results in higher state government revenues. We estimate that in 2001, the first year of full operations, the facility would generate \$648,000 in additional gross state government revenue, and that the MEGA package would provide a \$194,000 incentive to Magnesium Products Company of America. Thus, the Magnesium Products Company of America facility expansion would increase state government revenues in 2001 by \$454,000, net of MEGA incentive costs.

Over the period 1999 to 2009, gross state government revenue is projected to increase by \$7,712,000 (in current dollars) due to the expansion of Magnesium Products Company of America. The MEGA incentive package for Magnesium Products Company of America is forecast to cost \$2,230,000 over the period, resulting in a net increase in state government revenue of \$5,482,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2009 would be \$3,744,000 in 1998 dollars. These calculations do not include any revenue losses due to the property tax abatement or the Capital Acquisition Deduction. If the cost of the abatement or the CAD 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 Magnesium Products Company of America Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2003	2005	2007	2009	Total 1999-2009
Total Employment	43	235	162	154	149	152	157	—
Manufacturing	1	66	93	91	91	91	91	—
Nonmanufacturing	42	169	69	63	58	61	66	—
Retail Trade	5	28	19	16	15	15	16	—
Services	7	48	26	22	21	22	25	—
Other	30	93	24	25	22	24	25	—
In current dollars (thousands):								
Personal income	1,700	10,200	8,100	8,700	9,200	10,000	11,100	96,400
Gross state revenue	136	816	648	696	736	800	888	7,712
MEGA cost	0	119	194	220	235	250	266	2,230
State revenue net of MEGA cost*	136	697	454	476	501	550	622	5,482
Adjusted for inflation (thousands of 1998 dollars):								
Personal income	1,218	7,937	5,758	6,123	6,153	6,585	6,988	65,575
Gross state revenue	97	635	461	490	492	527	559	5,246
MEGA cost	0	93	138	155	157	165	168	1,502
State revenue net of MEGA cost*	97	542	323	335	335	362	391	3,744

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