The Economic Effects on Michigan of the Meritor Automotive, Inc. Facility Expansion Decision

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Abstract

Meritor Automotive, Inc. is considering building a new facility and rehabilitating an existing facility in the City of Detroit Renaissance Zone for the manufacturing and assembly of automotive sunroofs. The facility would employ166 people by 2004. We estimate that by 2017, this expansion will have generated a total of 535 jobs in the state. Total state government revenues through 2017, net of MEGA costs and adjusted for inflation, would increase by $23,836,000 (1999 dollars) due to the expansion of Meritor Automotive, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Meritor Automotive, Inc. building a new facility and rehabilitating an existing facility in the City of Detroit Renaissance Zone for the manufacturing and assembly of automotive sunroofs (SIC 3714). *The estimates include only new job creation, and do not include the Meritor workers who would be transferred from Brighton.* Investment activity would take place between 2000 and 2004, with an investment of $52.28 million. The facility would employ 166 people and be at full production by 2004.

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 2017, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2005 to 2014, and a tax credit to the company 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 for the period 2000 to 2014 and equal to 50 percent for the period 2015 to 2017.

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 403 jobs in 2000; almost all of these jobs are temporary. In 2004, the first year of full operations, an additional 413 jobs are generated in the state. We estimate that by 2017, this expansion will have generated a total of 535 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 2.8 over the period 2004 to 2017. 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 Meritor Automotive, Inc. were to expand in Michigan under the incentive program, state personal income in 2004 would be higher by $22.7 million (in current dollars) than it would be without the facility, and in 2017 it would be $46.4 million higher. Adjusted for inflation, these numbers in 1999 dollars would be $15.9 million in 2004 and $25.1 million in 2017.

The gain in economic activity results in higher state government revenues. We estimate that in 2004, the first year of full operations, the facility would generate $1,816,000 in additional gross state government revenue, and that the MEGA package would provide a $193,000 incentive to Meritor Automotive, Inc. Thus, the Meritor Automotive, Inc. facility expansion would increase state government revenues in 2004 by $1,623,000, net of MEGA incentive costs.

Over the period 2000 to 2017, gross state government revenue is projected to increase by $42,624,000 (in current dollars) due to the expansion of Meritor Automotive, Inc. The MEGA incentive package for Meritor Automotive, Inc. is forecast to cost $5,008,000 over the period, resulting in a net increase in state government revenue of $37,616,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2017 would be $23,836,000 in 1999 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 Meritor Automotive, Inc. Facility Expansion
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2000	2001	2002	2003	2004	2005	2010	2015	2017	Total 2000-2017
Total Employment	509	267	392	396	413	407	443	509	535	—
Manufacturing	69	127	182	184	193	190	189	194	196	—
Nonmanufacturing	440	140	210	212	220	217	254	315	339	—
Retail Trade	62	32	46	46	47	45	48	56	60	—
Services	88	49	75	73	76	75	91	121	134	—
Other	290	59	89	93	97	97	115	138	145	—
In current dollars (thousands):										
Personal income	20,700	13,300	19,400	20,900	22,700	23,600	30,700	41,300	46,400	532,800
Gross state revenue	1,656	1,064	1,552	1,672	1,816	1,888	2,456	3,304	3,712	42,624
MEGA cost	79	102	159	172	193	388	386	143	154	5,008
State revenue net of MEGA cost*	1,577	962	1,393	1,500	1,623	1,500	2,070	3,161	3,558	37,616
Adjusted for inflation (thousands of 1999 dollars):										
Personal income	16,773	9,495	14,350	15,237	15,906	16,362	19,673	23,642	25,081	338,464
Gross state revenue	1,342	760	1,148	1,219	1,272	1,309	1,574	1,891	2,006	27,077
MEGA cost	64	73	117	126	135	269	247	82	83	3,241
State revenue net of MEGA cost*	1,278	687	1,031	1,093	1,137	1,040	1,327	1,809	1,923	23,836

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