

**The Economic Effects on Michigan of the
New Venture Gear Operating Company Facility Expansion Decision**

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Abstract

New Venture Gear Operating Company is considering relocating and expanding the company's headquarters and research and development functions into a single facility in Auburn Hills, Michigan. The expanded facility would employ an additional 92 people by 2003. We estimate that by 2010, this expansion will have generated a total of 159 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would increase by \$7,162,000 (2000 dollars) due to the expansion of New Venture Gear Operating Company.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of New Venture Gear Operating Company relocating and expanding the company's headquarters and research and development functions into a single facility in Auburn Hills, Michigan (SIC 3714). Investment activity would take place between 2000 and 2002, with an investment of \$17.849 million. The expanded facility would employ an additional 92 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 a tax credit to the company for the period 2001 to 2010 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 177 jobs in 2000 and 19 jobs in 2001; almost all of these jobs are temporary. In 2003, the first year of full operations, an additional 186 jobs are generated in the state. We estimate that by 2010, this expansion will have generated a total of 159 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 1.82 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 New Venture Gear Operating Company were to expand in Michigan under the incentive program, state personal income in 2003 would be higher by \$14.5 million (in current dollars) than it would be without the facility, and in 2010 it would be \$18.3 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$12.1 million in 2003 and \$12.6 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 \$1,160,000 in additional gross state government revenue, and that the MEGA package would provide a \$369,000 incentive to New Venture Gear Operating Company. Thus, the New Venture Gear Operating Company facility expansion would increase state government revenues in 2003 by \$791,000, net of MEGA incentive costs.

Over the period 2000 to 2010, gross state government revenue is projected to increase by \$13,008,000 (in current dollars) due to the expansion of New Venture Gear Operating Company. The MEGA incentive package for New Venture Gear Operating Company is forecast to cost \$3,854,000 over the period, resulting in a net increase in state government revenue of \$9,154,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2010 would be \$7,162,000 in 2000 dollars. These calculations do not include any revenue losses due to the investment tax credit. If the costs of the 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 New Venture Gear Operating Company Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2005	2010	Total 2000-2010
Total Employment	177	191	179	186	170	159	—
Manufacturing	7	81	83	92	92	92	—
Nonmanufacturing	170	110	96	94	78	67	—
Retail Trade	21	31	29	29	26	24	—
Services	33	49	44	44	38	33	—
Other	116	30	23	21	14	10	—
In current dollars (thousands):							
Personal income	7,200	11,900	12,900	14,500	15,500	18,300	162,600
Gross state revenue	576	952	1,032	1,160	1,240	1,464	13,008
MEGA cost	0	268	308	369	387	460	3,854
State revenue net of MEGA cost*	576	684	724	791	853	1,004	9,154
Adjusted for inflation (thousands of 2000 dollars):							
Personal income	7,200	10,470	11,134	12,087	11,888	12,649	126,423
Gross state revenue	576	838	891	967	951	1,012	10,114
MEGA cost	0	236	266	308	297	318	2,952
State revenue net of MEGA cost*	576	602	625	659	654	694	7,162

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