

**The Economic Effects on Michigan of the
Northern Michigan Casting Corporation Facility Location Decision**

**George A. Fulton
Peter Nicolas
Donald R. Grimes**

**University of Michigan
December 21, 1999**

Abstract

Northern Michigan Casting Corporation is considering renovating an existing vacant industrial facility in Newberry, Michigan, to accommodate a new operation for the refining of magnesium ingot and for the manufacture of automotive and non-automotive diecast components. The facility would employ 95 people by 2002. We estimate that by 2020, this location will have generated a total of 157 jobs in the state. Total state government revenues through 2020, net of MEGA costs and adjusted for inflation, would increase by \$6,381,000 (1999 dollars) due to the location of Northern Michigan Casting Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Northern Michigan Casting Corporation renovating an existing vacant industrial facility in Newberry, Michigan, to accommodate a new operation for the refining of magnesium ingot and for the manufacture of automotive and non-automotive diecast components (SIC 3369). Investment activity would take place between 2000 and 2002, with an investment of \$6.35 million, and production would begin in August 2000. The facility would employ 95 people by 2002.

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 2020, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2001 to 2005, and a tax credit to the company for the period 2001 to 2020 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 48 jobs in 2000; almost all of these jobs are temporary. In 2002, the first year of full operations, an additional 134 jobs are generated in the state. We estimate that by 2020, this location 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 location averages 1.5 over the period 2002 to 2020. 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 Northern Michigan Casting Corporation were to locate in Michigan under the incentive program, state personal income in 2002 would be higher by \$5.3 million (in current dollars) than it would be without the facility, and in 2020 it would be \$13 million higher. Adjusted for inflation, these numbers in 1999 dollars would be \$4 million in 2002 and \$6.4 million in 2020.

The gain in economic activity results in higher state government revenues. We estimate that in 2002, the first year of full operations, the facility would generate \$424,000 in additional gross state government revenue, and that the MEGA package would provide a \$198,000 incentive to Northern Michigan Casting Corporation. Thus, the Northern Michigan Casting Corporation facility location would increase state government revenues in 2002 by \$226,000, net of MEGA incentive costs.

Over the period 2000 to 2020, gross state government revenue is projected to increase by \$13,672,000 (in current dollars) due to the location of Northern Michigan Casting Corporation. The MEGA incentive package for Northern Michigan Casting Corporation is forecast to cost \$2,730,000 over the period, resulting in a net increase in state government revenue of \$10,942,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2020 would be \$6,381,000 in 1999 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 and 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 Northern Michigan Casting Corporation Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2005	2010	2015	2020	Total 2000-2020
Total Employment	72	123	134	129	134	146	157	—
Manufacturing	22	93	95	95	95	95	95	—
Nonmanufacturing	50	30	39	34	39	51	62	—
Retail Trade	9	9	10	8	8	9	11	—
Services	12	10	12	10	11	17	23	—
Other	29	11	17	16	20	25	28	—
In current dollars (thousands):								
Personal income	2,800	4,300	5,300	6,200	7,900	10,100	13,000	170,900
Gross state revenue	224	344	424	496	632	808	1,040	13,672
MEGA cost	0	176	198	199	103	124	150	2,730
State revenue net of MEGA cost*	224	168	226	297	529	684	890	10,942
Adjusted for inflation (thousands of 1999 dollars):								
Personal income	2,275	3,185	4,000	4,190	4,805	5,811	6,405	100,759
Gross state revenue	182	255	320	335	385	465	513	8,061
MEGA cost	0	130	149	135	63	71	74	1,680
State revenue net of MEGA cost*	182	125	171	200	322	394	439	6,381

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