

**The Economic Effects on Michigan of  
the Michigan Bell Telephone Company Facility Retention Decision**

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### Abstract

*Michigan Bell Telephone Company proposes to retain up to 930 jobs at seven network centers in Southfield and Detroit, Michigan. We estimate that by 2014, this retention will have generated a total of 2,140 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by \$97,321,000 (2005 dollars) due to the retention of these seven network centers by Michigan Bell Telephone Company.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if Michigan Bell Telephone Company retains up to 930 jobs at seven network centers in Southfield and Detroit, Michigan (SIC 4813). Investment activity would take place in 2005, with an investment of \$1.8 million.

The estimates of the benefits include the total number of jobs retained 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 2005 to 2014, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2005 to 2014 equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees retained at the network centers as a result of the project.

The total employment effects, reported in the first line of the table, include the direct jobs retained at the network centers themselves 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 28 jobs in 2005; almost all of these jobs are temporary. In 2006, the first year of full operations without investment activity, 3,018 jobs are retained in the state. We estimate that by 2014, there will be a total of 2,140 additional jobs in the state as a result of this retention. The total number of jobs retained (direct plus spin-off) for every direct job retained constitutes the "employment multiplier." The employment multiplier for the retention averages 2.6 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 Michigan Bell Telephone Company were to retain its network centers in Michigan under the incentive program, state personal income in 2006 would be higher by \$176 million (in current dollars) than it would be without the retention, and in 2014 it would be \$200 million

higher. Adjusted for inflation, these numbers in 2005 dollars would be \$159.3 million in 2006 and \$150.7 million in 2014.

The gain in economic activity results in higher state government revenues. We estimate that in 2006, the first year of full operations without investment activity, retention of the network centers would generate \$13,534,000 in additional gross state government revenue, and that the MEGA package would provide a \$2,049,000 incentive to Michigan Bell Telephone Company. Thus, the Michigan Bell Telephone Company retention would increase state government revenues in 2006 by \$11,485,000, net of MEGA incentive costs.

Over the period 2005 to 2014, gross state government revenue is projected to increase by \$140,327,000 (in current dollars) due to the retention of Michigan Bell Telephone Company's network centers. The MEGA incentive package for Michigan Bell Telephone Company is forecast to cost \$21,943,000 over the period, resulting in a net increase in state government revenue of \$118,384,000. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2014 would be \$97,321,000 in 2005 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 Michigan Bell Telephone Company Facility Retention  
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total 2005-2014
Total employment	2,384	3,018	2,820	2,639	2,485	2,360	2,264	2,201	2,162	2,140	—
Manufacturing	95	87	41	1	0	0	0	0	0	0	—
Nonmanufacturing	2,289	2,931	2,779	2,638	2,485	2,360	2,264	2,201	2,162	2,140	—
Retail trade	329	408	372	340	313	290	272	261	253	248	—
Services	559	688	614	549	496	455	426	408	401	399	—
Other	1,401	1,835	1,793	1,749	1,676	1,615	1,566	1,532	1,508	1,493	—
In current dollars (thousands):											
Personal income	123,900	176,000	183,400	186,500	188,000	188,900	190,200	192,200	195,700	200,000	1,824,800
Gross state revenue	9,528	13,534	14,103	14,342	14,457	14,527	14,626	14,780	15,050	15,380	140,327
MEGA cost	1,975	2,049	2,051	2,053	2,055	2,143	2,239	2,343	2,456	2,579	21,943
State revenue net of MEGA cost*	7,553	11,485	12,052	12,289	12,402	12,384	12,387	12,437	12,594	12,801	118,384
Adjusted for inflation (Thousands of 2005 dollars):											
Personal income	123,900	159,304	158,186	155,680	152,962	151,264	149,944	149,277	149,814	150,691	1,501,021
Gross state revenue	9,528	12,250	12,164	11,972	11,763	11,632	11,531	11,480	11,521	11,588	115,429
MEGA cost	1,975	1,855	1,769	1,714	1,672	1,716	1,765	1,820	1,880	1,943	18,108
State revenue net of MEGA cost*	7,553	10,395	10,395	10,258	10,091	9,916	9,766	9,660	9,641	9,645	97,321

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