The Economic Effects on Michigan of the Select Steel Facility Location Decision

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Abstract

Select Steel is considering locating a new steel manufacturing and processing facility in Michigan. The new facility would employ 200 people by 2003. We estimate that by 2010, this location will have generated a total of 490 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would increase by $15,104,000 (1998 dollars) due to the location of Select Steel.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Select Steel locating a new steel manufacturing and processing facility in the state (SIC 3312). Investment activity would take place between 1999 and 2001, with an investment of $160.5 million, and production would begin in July 2001. The new facility would employ 200 people 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 1999 to 2010, are shown in the attached table. The MEGA incentive package includes relief from 50 percent of the single business tax for the period 2004 to 2010, and a payroll (gross wages) tax credit to the company for the period 2001 to 2010, representing 55 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 243 jobs in 1999, 1,007 jobs in 2000, and 119 jobs in 2001; almost all of these jobs are temporary. In 2003, the first year of full operations, an additional 306 jobs are generated in the state. We estimate that by 2010, this facility addition will have generated a total of 490 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 2.4 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 Select Steel were to locate in Michigan under the incentive program, state personal income in 2003 would be higher by $31.0 million (in current dollars) than it would be without the facility, and in 2010 it would be $40.7 million higher. Adjusted for inflation, these numbers in 1998 dollars would be $22.0 million in 2003 and $24.8 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 $2,480,000 in additional gross state government revenue, and that the MEGA package would provide a $210,000 incentive to Select Steel. Thus, the Select Steel facility location would increase state government revenues in 2003 by $2,270,000, net of MEGA incentive costs.

Over the period 1999 to 2010, gross state government revenue is projected to increase by $30,208,000 (in current dollars) due to the location of Select Steel. The MEGA incentive package for Select Steel is forecast to cost $8,149,000 over the period, resulting in a net increase in state government revenue of $22,059,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2010 would be $15,104,000 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 Select Steel Facility Location
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	1999	2000	2001	2002	2003	2005	2010	Total 1999-2010
Total Employment	243	1,007	306	331	487	455	490	—
Manufacturing	7	129	86	147	210	206	207	—
Nonmanufacturing	236	878	220	184	277	249	283	—
Retail Trade	28	120	35	40	60	53	55	—
Services	40	222	47	53	85	78	95	—
Other	168	536	138	91	132	118	133	—
In current dollars (thousands):								
Personal income	9,600	45,100	20,100	22,300	31,000	32,300	40,700	377,600
Gross state revenue	768	3,608	1,608	1,784	2,480	2,584	3,256	30,208
MEGA cost	0	0	89	149	210	1,112	1,215	8,149
State revenue net of MEGA cost*	768	3,608	1,519	1,635	2,270	1,472	2,041	22,059
Adjusted for inflation (thousands of 1998 dollars):								
Personal income	7,604	35,391	13,190	15,349	22,009	21,717	24,844	254,955
Gross state revenue	608	2,831	1,055	1,228	1,761	1,738	1,988	20,396
MEGA cost	0	0	58	103	149	748	742	5,292
State revenue net of MEGA cost*	608	2,831	997	1,125	1,612	990	1,246	15,104

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