

**The Economic Effects on Michigan of the  
Sequoia NET.com Expansion**

Prepared by the Michigan Economic Development Corporation utilizing Regional  
Economic Models, Incorporated (REMI) software.

November 27, 2000

### Abstract

*Sequoia NET.com is considering an expansion and consolidation of their facility in Auburn Hills, Michigan. This expanded facility would employ an additional 225 people by the end of 2003. We estimate that by 2007, this expansion will have generated a total of 311 jobs in the state. Total state government revenues through 2007, net of MEGA costs and adjusted for inflation, would increase by \$9.4 million (2000 dollars) due to the expansion of the Sequoia NET.com facility.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Sequoia NET.com expanding their facility in Auburn Hills. Investment activity would take place between 2001 and 2003, with an investment of \$7.9 million. The facility would employ an additional 225 people and would be at full production by 2003.

The estimates of the benefits attributable to the project 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 2001 to 2007, are shown in the attached table. The MEGA incentive package includes a tax credit to the company equal to 50 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility for the period 2001 to 2007.

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 created from two sources, increased purchases from Michigan suppliers and spending by people who receive income due to the increased economic activity. In 2003, the first year of full operations, an additional 417 jobs are generated in the state. The total number of jobs (direct plus spin-off) for every direct job introduced constitutes the "employment multiplier." The employment multiplier for the expansion averages 1.45 over the period 2001 to 2007. Sectoral detail on the employment 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 Sequoia NET.com were to expand in Michigan under the incentive program, state personal income in 2003 would be higher by \$22.3 million (in current dollars) than it would be without the facility, and in 2007, it would be \$24.4 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$21.3 million in 2003 and \$21.2 million in 2007.

The gain in economic activity results in higher government revenues. We estimate that in 2004, the first year of full operations without investment activity, the facility would generate \$1.9 million in additional gross state revenue, and that the MEGA package

would provide a \$314,000 incentive to Sequoia NET.com. Thus, the expanded Sequoia NET.com facility would increase state revenues in 2004 by \$1.6 million, net of MEGA costs.

Over the period 2001 to 2007, state government revenue is projected to increase by \$11.3 (in current dollars) due to the expanded Sequoia NET.com facility. The MEGA incentive package for Sequoia NET.com is forecast to cost \$1.9 million over the period, resulting in a net increase in state government revenue of \$9.4 million. Adjusted for inflation, the total net increase in state government revenue from 2001 to 2007 would be \$8.6 million in 2000 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 the 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.

**Sequoia NET.com Expansion and Consolidation  
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2001	2002	2003	2004	2005	2006	2007	Total
<b>Total Employment</b>	193	293	417	386	357	330	311	
Manufacturing	6	3	0	-7	-13	-18	-21	
Non-Manufacturing	187	290	417	393	370	348	332	
Retail Trade	25	31	44	40	35	31	27	
Services	128	219	319	308	297	288	280	
Other	34	40	54	45	38	29	25	
<b>In Current Dollars (Thousands):</b>								
Personal Income	\$8,270	\$14,220	\$22,340	\$23,470	\$23,990	\$24,230	\$24,380	\$140,900
Gross State Revenue	662	1,138	1,787	1,878	1,919	1,938	1,950	11,272
Mega Cost	98	204	310	314	327	330	342	1,925
State Revenue Net of MEGA Cost*	\$564	\$934	\$1,477	\$1,564	\$1,592	\$1,608	\$1,608	\$9,347
<b>Adjusted for Inflation (Thousands of 2000 Dollars):</b>								
Personal Income	\$8,270	\$13,890	\$21,317	\$21,884	\$21,865	\$21,593	\$21,248	\$130,067
Gross State Revenue	662	1,112	1,705	1,751	1,749	1,727	1,699	10,405
Mega Cost	98	199	296	293	298	294	298	1,776
State Revenue Net of MEGA Cost*	\$564	\$913	\$1,409	\$1,458	\$1,451	\$1,433	\$1,401	\$8,629

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