

**The Economic Effects on Michigan
of the Standard Automotive Parts Company Plant Location Decision**

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Abstract

Standard Automotive Parts Company is considering locating its new generation rocker arm and other custom castings plant in Michigan, which by 1998 would employ 25 people. We estimate that by 2017, this facility will have generated a total of 88 jobs in the state. Total state government revenues through 2017, net of MEGA costs and adjusted for inflation, would be increased by \$4,793,000 (1995 dollars) due to the location of the Standard Automotive Parts plant.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Standard Automotive Parts Company's locating its new generation rocker arm and other custom castings plant (SIC 3519, 3499) in the state. A new facility would be built in 1996, with an investment of \$6 million, and would begin production in mid-1996. The facility would employ 25 workers by 1998.

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 1996 to 2017, are shown in the attached table. The MEGA incentive package consists of a tax credit to the company equal to the income tax withheld from the plant's employees for the period 1998-2017.

The total employment effects, reported in the first line of the table, include the direct jobs created at the plant 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 and investment in machinery and equipment is expected to generate a total of 48 jobs in 1996; almost all of these jobs are temporary. In 1998, the first year of full production, an additional 62 jobs are generated in the state. We estimate that by 2017, this facility will have generated a total of 88 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 2.9 over the period 1998-2017. 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 the Standard Automotive Parts facility were to locate in Michigan under the incentive program, state personal income in 1998 would be higher by \$3.1 million (in current dollars) than it would be without the facility, and in 2017 it would be \$10.8 million higher. Adjusted for inflation, these numbers in 1995 dollars would be \$2.3 million in 1998 and \$4 million in 2017.

The gain in economic activity results in higher state government revenues. The construction and operation of the plant and investment in machinery and equipment would generate \$224,000 in 1996 and \$184,000 in 1997 (in current dollars) in additional gross state revenue. Since there are no MEGA incentives offered to Standard Automotive Parts in 1996 or 1997, nor to the construction companies, these values are also the impact on net state revenue. We estimate that in 1998, the first year of full production, the operation of the plant would generate \$248,000 in additional gross state government revenue, and that the MEGA package would provide a \$30,000 incentive to Standard Automotive Parts. Thus, the Standard Automotive Parts facility would generate an additional \$218,000 in revenue to state government in 1998, net of MEGA incentive costs.

Over the period 1996-2017, gross state government revenue is projected to increase by \$10,536,000 (in current dollars) due to the location of the Standard Automotive Parts plant. The MEGA incentive package for Standard Automotive Parts is forecast to cost \$1,013,000 over the period, resulting in a net increase in state government revenue of \$9,523,000. Adjusted for inflation, the total net increase in state government revenue from 1996 to 2017 would be \$4,793,000 in 1995 dollars. These calculations do not include any revenue losses due to the property tax abatement. If the cost 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 Standard Automotive Parts Company Plant Location Decision
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	1996	1997	1998	1999	2000	2005	2010	2017	Total 1996-2017
Total employment	69	46	62	61	61	67	76	88	—
Manufacturing	19	21	28	28	28	28	28	30	—
Nonmanufacturing	50	25	34	33	33	39	48	58	—
Retail trade	9	6	8	8	8	8	10	12	—
Services	16	9	13	12	12	14	17	23	—
Other	25	10	13	13	13	17	21	23	—
In current dollars (thousands):									
Personal income	2,800	2,300	3,100	3,400	3,800	5,100	6,900	10,800	131,700
Gross state revenue	224	184	248	272	304	408	552	864	10,536
MEGA cost*	0	0	30	32	34	43	55	77	1,013
State revenue net of MEGA cost	224	184	218	240	270	365	497	787	9,523
Adjusted for inflation (thousands of 1995 dollars):									
Personal income	2,206	1,649	2,290	2,451	2,529	2,922	3,262	4,009	67,397
Gross state revenue	177	132	183	196	203	233	261	320	5,392
MEGA cost*	0	0	27	27	28	29	31	32	599
State revenue net of MEGA cost	177	132	156	169	175	204	230	288	4,793

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