The Economic Effects on Michigan of the

USF Technology Services Technology Center

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

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Abstract

USF Technology Services is considering building a centralized technology center in Grand Rapids Township, Michigan. This facility would design and develop software applications for supply chain management. The new facility would employ up to 80 people by the end of 2007. We estimate that by 2012, this location will have generated a total of 153 jobs in the state. Total state government revenues through 2012, net of MEGA costs and adjusted for inflation, would increase by $3 million (2003 dollars) due to the location of the USF Technology Services Technology Center.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of USF Technology Services locating a centralized technology center in Grand Rapids Township. Investment activity would take place between 2003 and 2007 with an investment of $28 million. The facility would employ an additional 80 people and would be at full production by 2007.

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 2003 to 2012, are shown in the attached table. The MEGA incentive package includes tax credit to the company equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility for the period 2003 to 2012.

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 2007, the first year of full operations, an additional 149 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 1.60 over the period 2003 to 2012. 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 USF Technology Services were to locate in Michigan under the incentive program, state personal income in 2007 would be higher by $8 million (in current dollars) than it would be without the facility, and in 2012, it would be $10.7 million higher. Adjusted for inflation, these numbers in 2003 dollars would be $7.4 million in 2007 and $8.8 million in 2012.

The gain in economic activity results in higher government revenues. We estimate that in 2008, the first year of full operations without investment activity, the facility would

generate $660,000 in additional gross state revenue, and that the MEGA package would provide a $264,000 incentive to USF Technology Services. Thus, the new USF Technology Services facility would increase state revenues in 2008 by $396,000, net of MEGA costs.

Over the period 2003 to 2012 state government revenue is projected to increase by $5.7 million (in current dollars) due to the new USF Technology Services facility. The MEGA incentive package for USF Technology Services is forecast to cost $2.4 million over the period, resulting in a net increase in state government revenue of $3.3 million. Adjusted for inflation, the total net increase in state government revenue from 2003 to 2012 would be $3 million in 2003 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.

USF Technology Services Inc.
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package

Economic/Fiscal Indicator	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Total Employment	36	91	110	139	149	149	152	152	150	153	
Manufacturing	1	2	2	3	3	2	2	2	1	2	
Non-Manufacturing	35	89	108	136	146	147	150	150	149	151	
Retail Trade	5	12	15	18	19	19	19	20	19	19	
Services	11	28	34	42	46	47	48	49	49	50	
Other	19	49	59	76	81	81	83	81	81	82	
In Current Dollars (Thousands):											
Personal Income	$1,495	$4,059	$5,341	$7,050	$8,026	$8,575	$9,155	$9,705	$10,160	$10,740	$74,306
Gross State Revenue	115	313	411	543	618	660	705	747	782	827	5,721
Mega Cost	59	150	188	234	250	264	280	297	316	336	2,375
State Revenue Net of MEGA Cost*	$56	$163	$223	$309	$368	$396	$425	$450	$466	$491	$3,346
Adjusted for Inflation (Thousands of 2003 Dollars):											
Personal Income	$1,495	$3,974	$5,118	$6,611	$7,365	$7,700	$8,043	$8,342	$8,544	$8,837	$66,029
Gross State Revenue	115	306	394	509	567	593	619	642	658	680	5,083
Mega Cost	59	147	180	219	230	237	246	256	266	277	2,117
State Revenue Net of MEGA Cost*	$56	$159	$214	$290	$337	$356	$373	$386	$392	$403	$2,966

* 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.