

**The Economic Effects on Michigan of the  
Veridian Systems Division, Inc. Facility Location Decision**

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### Abstract

*Veridian Systems Division, Inc. (formerly ERIM International) is considering building a new research and development center in Ypsilanti Township to develop leading-edge intelligence, surveillance and reconnaissance (ISR) technology and systems engineering for both defense and commercial application, including ISR architecture modeling and systems development; synthetic aperture radar and other imaging and remote sensing systems design, analysis, and prototyping; visualization; simulation; information extraction; and multi-sensor fusion. The facility would employ an additional 245 people by 2010. We estimate that by 2020, this location will have generated a total of 366 jobs in the state. Total state government revenues through 2020, net of MEGA costs and adjusted for inflation, would increase by \$23,506,000 (2002 dollars) due to the location of Veridian Systems Division, Inc.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Veridian Systems Division, Inc. (formerly ERIM International) building a new research and development center in Ypsilanti Township to develop leading-edge intelligence, surveillance and reconnaissance (ISR) technology and systems engineering for both defense and commercial application, including ISR architecture modeling and systems development; synthetic aperture radar and other imaging and remote sensing systems design, analysis, and prototyping; visualization; simulation; information extraction; and multi-sensor fusion (SIC 8731). Investment activity would take place between 2003 and 2009, with an investment of \$38.8 million. The facility would employ an additional 245 people by 2010.

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 2003 to 2020, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2005 to 2009; it also includes a tax credit to the company for the period 2005 to 2020 equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility as a result of the project.

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 investment activity is expected to generate a total of 237 jobs in 2003 and 337 jobs in 2004; almost all of these jobs are temporary. In 2010, the first year of full operations, an additional 413 jobs are generated in the state. We estimate that by 2020, this location will have generated a total of 366 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 1.5 over the period 2010 to 2020. 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 Veridian Systems Division, Inc. were to locate in Michigan under the incentive program, state personal income in 2010 would be higher by \$39.1 million (in current dollars) than it would be without the facility, and in 2020 it would be \$54.0 million higher. Adjusted for inflation, these numbers in 2002 dollars would be \$26.2 million in 2010 and \$29.6 million in 2020.

The gain in economic activity results in higher state government revenues. We estimate that in 2010, the first year of full operations, the facility would generate \$3,128,000 in additional gross state government revenue, and that the MEGA package would provide a \$755,000 incentive to Veridian Systems Division, Inc. Thus, the Veridian Systems Division, Inc. facility location would increase state government revenues in 2020 by \$2,373,000, net of MEGA incentive costs.

Over the period 2003 to 2020, gross state government revenue is projected to increase by \$51,608,000 (in current dollars) due to the location of Veridian Systems Division, Inc. The MEGA incentive package for Veridian Systems Division, Inc. is forecast to cost \$13,836,000 over the period, resulting in a net increase in state government revenue of \$37,772,000. Adjusted for inflation, the total net increase in state government revenue from 2003 to 2020 would be \$23,506,000 in 2002 dollars. These calculations do not include any revenue losses due to the Investment Tax Credit. If the costs of the tax credit 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 Veridian Systems Division, Inc. Facility Location  
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	Total 2003-2020
Total Employment	237	337	148	202	255	308	354	413	363	366	—
Manufacturing	6	5	0	0	0	0	0	0	0	0	—
Nonmanufacturing	231	332	148	202	255	308	354	413	363	366	—
Retail Trade	25	34	21	29	37	45	52	60	52	53	—
Services	37	49	114	156	196	234	270	310	286	286	—
Other	169	249	13	17	22	29	32	43	25	27	—
In current dollars (thousands):											
Personal income	10,500	17,000	12,700	16,900	21,700	27,000	32,300	39,100	45,600	54,000	645,100
Gross state revenue	840	1,360	1,016	1,352	1,736	2,160	2,584	3,128	3,648	4,320	51,608
MEGA cost	0	0	485	606	730	863	992	755	917	1,113	13,836
State revenue net of MEGA cost*	840	1,360	531	746	1,006	1,297	1,592	2,373	2,731	3,207	37,772
Adjusted for inflation (thousands of 2002 dollars):											
Personal income	8,057	12,079	8,440	11,718	15,132	18,782	21,995	26,243	27,446	29,611	401,879
Gross state revenue	645	966	675	937	1,210	1,503	1,760	2,099	2,196	2,369	32,150
MEGA cost	0	0	322	420	509	601	676	506	552	610	8,644
State revenue net of MEGA cost*	645	966	353	517	701	902	1,084	1,593	1,644	1,759	23,506

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