

**The Economic Effects on Michigan
of the Walbro Facility Location Decision**

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Abstract

Walbro is considering building a blow molding and assembly plant that will produce and assemble fuel storage and delivery systems for automobile manufacturers. By the year 2000, the facility would employ 353 people. We estimate that by 2018, this location will have generated a total of 742 jobs in the state. Total state government revenues through 2018, net of MEGA costs and adjusted for inflation, would be increased by \$32,163,000 (1996 dollars) due to the location of Walbro.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Walbro's building a blow molding and assembly plant that will produce and assemble fuel storage and delivery systems for automobile manufacturers (SIC 3089). Construction activity would take place in 1997, with an investment of \$50 million, and operations would begin in January 1998. The facility would employ 353 workers by the year 2000.

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 1997 to 2018, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 1999-2008 and a tax credit to the company for the period 1999-2018 equal to 4.4 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 100 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 490 jobs in 1997; almost all of these jobs are temporary. In 2000, the year that full operations begin, an additional 655 jobs are generated in the state. We estimate that by 2018 this facility will have generated a total of 742 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 1.9 over the period 2000-2018. 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 Walbro were to locate in Michigan under the incentive program, state personal income in the year 2000 would be higher by \$31.7 million (in current dollars) than it would be without the facility, and in 2018 it would be \$69.2 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$22.8 million in 2000 and \$33.8 million in 2018.

The gain in economic activity results in higher state government revenues. We estimate that in 2000, the year that full operations begin, the facility would generate \$2,536,000 in additional gross state government revenue, and that the MEGA package would provide a \$443,000 incentive to Walbro. Thus, the Walbro facility would generate an additional \$2,093,000 in revenue to state government in the year 2000, net of MEGA incentive costs.

Over the period 1997-2018, gross state government revenue is projected to increase by \$77,736,000 (in current dollars) due to the location of Walbro. The MEGA incentive package for Walbro is forecast to cost \$19,067,000 over the period, resulting in a net increase in state government revenue of \$58,669,000. Adjusted for inflation, the total net increase in state government revenue from 1997 to 2018 would be \$32,163,000 in 1996 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 Walbro Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1997	1998	1999	2000	2005	2010	2015	2018	Total 1997-2018
Total Employment	490	301	467	655	619	669	716	742	—
Manufacturing	50	178	253	361	353	353	354	358	—
Nonmanufacturing	440	123	214	294	266	316	362	384	—
Retail Trade	54	32	52	71	64	70	77	81	—
Services	117	49	89	119	108	127	152	167	—
Other	269	42	73	104	94	119	133	136	—
In current dollars (thousands):									
Personal income	18,900	14,400	22,000	31,700	39,500	49,100	60,700	69,200	971,700
Gross state revenue	1,512	1,152	1,760	2,536	3,160	3,928	4,856	5,536	77,736
MEGA cost	0	0	212	443	1,257	745	886	997	19,067
State revenue net of MEGA cost	1,512	1,152	1,548	2,093	1,903	3,183	3,970	4,539	58,669
Adjusted for inflation (thousands of 1996 dollars):									
Personal income	15,779	10,209	16,212	22,767	25,074	28,604	31,852	33,787	572,486
Gross state revenue	1,262	817	1,297	1,821	2,006	2,288	2,548	2,703	45,799
MEGA cost	0	0	195	397	982	507	523	541	13,636
State revenue net of MEGA cost	1,262	817	1,102	1,424	1,024	1,781	2,025	2,162	32,163

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