

**The Economic Effects on Michigan of the
Webvan Group, Inc. Facility Location Decision**

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Abstract

Webvan Group, Inc. is considering leasing a 300,000 square-foot warehousing, distribution and office center to conduct its e-commerce, internet-based business of delivering food products and general merchandise. The facility would employ 900 people by 2004. We estimate that by 2015, this location will have generated a total of 1,198 jobs in the state. Total state government revenues through 2015, net of MEGA costs and adjusted for inflation, would increase by \$27,336,000 (1999 dollars) due to the location of Webvan Group, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Webvan Group, Inc. leasing a 300,000 square-foot warehousing, distribution and office center to conduct its e-commerce, internet-based business of delivering food products and general merchandise (SIC 7389). Investment activity would take place between 2000 and 2001, with an investment of \$47.36 million, and production would begin in August 2001. The facility would employ 900 people by 2004.

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 2000 to 2015, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2001 to 2015, and a tax credit to the company for the same period 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 construction activity is expected to generate a total of 406 jobs in 2000 and 236 jobs in 2001; almost all of these jobs are temporary. In 2004, the first year of full operations, an additional 1,222 jobs are generated in the state. We estimate that by 2015, this location will have generated a total of 1,198 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 1.29 over the period 2004 to 2015. 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

**Economic and Fiscal Effects on Michigan of the Webvan Group, Inc. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2004	2005	2010	2015	Total 2000-2015
Total Employment	406	389	792	1,104	1,222	1,189	1,132	1,198	—
Manufacturing	17	18	0	0	0	0	0	0	—
Nonmanufacturing	389	371	792	1,104	1,222	1,189	1,132	1,198	—
Retail Trade	51	46	73	100	105	97	75	80	—
Services	78	187	670	926	1,029	1,012	976	999	—
Other	260	138	49	78	88	80	81	119	—
In current dollars (thousands):									
Personal income	16,600	17,900	34,300	50,700	60,800	64,300	77,700	97,600	1,050,700
Gross state revenue	1,328	1,432	2,744	4,056	4,864	5,144	6,216	7,808	84,056
MEGA cost	0	1,223	2,314	2,591	2,702	2,707	2,694	2,639	38,193
State revenue net of MEGA cost*	1,328	209	430	1,465	2,162	2,437	3,522	5,169	45,863
Adjusted for inflation (thousands of 1999 dollars):									
Personal income	13,235	12,963	24,790	35,449	40,577	41,597	45,636	52,179	634,603
Gross state revenue	1,059	1,037	1,983	2,836	3,246	3,328	3,651	4,174	50,768
MEGA cost	0	885	1,672	1,812	1,803	1,751	1,582	1,411	23,432
State revenue net of MEGA cost*	1,059	152	311	1,024	1,443	1,577	2,069	2,763	27,336

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