

**The Economic Effects on Michigan
of the Worthington Industries Facility Location Decision**

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Abstract

Worthington Industries is considering building a new light gauge galvanizing facility at a site located in Frenchtown Township, Michigan. This facility would be a joint venture and would galvanize approximately 450,000 tons of cold rolled steel coils for automotive application. By 1998, the facility would employ 110 people. We estimate that by 2010, this location will have generated a total of 333 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would be increased by \$9,680,000 (1996 dollars) due to the location of Worthington Industries.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Worthington Industries' building a new light gauge galvanizing facility at a site located in Frenchtown Township, Michigan. This facility would be a joint venture and would galvanize approximately 450,000 tons of cold rolled steel coils for automotive application (SIC 3316). Construction activity would take place between 1996 and 1998, with an investment of \$85 million, and operations would begin early in 1998. The facility would employ 110 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 2010, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 1999-2010 and a tax credit to the company for the same period 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 85 jobs in 1996, 538 jobs in 1997, and 34 jobs in 1998; almost all of these jobs are temporary. In 2000, the year that full operations begin, an additional 273 jobs are generated in the state. We estimate that by 2010 this facility will have generated a total of 333 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 2.7 over the period 2000-2010. 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 Worthington Industries were to locate in Michigan under the incentive program, state personal income in the year 2000 would be higher by \$17.6 million (in current dollars) than it would be without the facility, and in 2010 it would be \$26.4 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$13.2 million in 2000 and \$16.8 million in 2010.

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 \$1,408,000 in additional gross state government revenue, and that the MEGA package would provide a \$188,000 incentive to Worthington Industries. Thus, the Worthington Industries facility would generate an additional \$1,220,000 in revenue to state government in the year 2000, net of MEGA incentive costs.

Over the period 1996-2010, gross state government revenue is projected to increase by \$24,792,000 (in current dollars) due to the location of Worthington Industries. The MEGA incentive package for Worthington Industries is forecast to cost \$11,049,000 over the period, resulting in a net increase in state government revenue of \$13,743,000. Adjusted for inflation, the total net increase in state government revenue from 1996 to 2010 would be \$9,680,000 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 Worthington Industries Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1996	1997	1998	1999	2000	2005	2010	Total 1996-2010
Total Employment	200	811	366	289	273	288	333	—
Manufacturing	53	178	125	111	110	111	116	—
Nonmanufacturing	147	633	241	178	163	177	217	—
Retail Trade	24	96	46	36	33	35	42	—
Services	46	203	85	62	58	67	86	—
Other	77	334	110	80	72	75	89	—
In current dollars (thousands):								
Personal income	7,800	33,600	20,600	18,100	17,600	20,100	26,400	309,900
Gross state revenue	624	2,688	1,648	1,448	1,408	1,608	2,112	24,792
MEGA cost	0	0	0	149	188	1,084	1,210	11,049
State revenue net of MEGA cost	624	2,688	1,648	1,299	1,220	524	902	13,743
Adjusted for inflation (thousands of 1996 dollars):								
Personal income	7,800	28,887	15,277	13,551	13,231	14,590	16,803	227,561
Gross state revenue	624	2,311	1,222	1,084	1,059	1,167	1,344	18,205
MEGA cost	0	0	0	137	169	847	823	8,525
State revenue net of MEGA cost	624	2,311	1,222	947	890	320	521	9,680