

**The Economic Effects on Michigan of the
pgam Corporation Expansion**

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

November 16, 2004

Abstract

pgam Corporation is considering building a Armoring & Specialty Vehicles expansion in Auburn Hills, Michigan. This facility would produce armoring and specialty vehicle products for automotive. The new facility would employ up to 117 people by the end of 2010. We estimate that by 2015, this location will have generated a total of 240 jobs in the state. Total state government revenues through 2015, net of MEGA costs and adjusted for inflation, would increase by \$6.8 million (2004 dollars) due to the location of pgam Corporation's Armoring & Specialty Vehicle expansion.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of pgam Corporation locating Armoring & Specialty Vehicles production in Auburn Hills. Investment activity would take place between 2005 and 2010 with an investment of \$11.3 million. The facility would employ an additional 117 people and would be at full production by 2010.

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 2005 to 2015, are shown in the attached table. The MEGA incentive package includes a 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 2006 to 2015.

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 2010, the first year of full operations, an additional 166 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 1.75 over the period 2005 to 2015. 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 pgam Corporation were to locate in Michigan under the incentive program, state personal income in 2010 would be higher by \$6.8 million (in current dollars) than it would be without the facility, and in 2015, it would be \$16.9 million higher. Adjusted for inflation, these numbers in 2004 dollars would be \$6.6 million in 2010 and \$13.5 million in 2015.

The gain in economic activity results in higher government revenues. We estimate that in 2007, the first year of full operations without investment activity, the facility would generate \$644,000 in additional gross state revenue, and that the MEGA package would provide a \$137,000 incentive to pgam Corporation. Thus, the new pgam Corporation facility would increase state revenues in 2007 by \$507,000, net of MEGA costs.

Over the period 2005 to 2015 state government revenue is projected to increase by \$9.9 million (in current dollars) due to the new pgam Corporation facility. The MEGA incentive package for pgam Corporation is forecast to cost \$2 million over the period, resulting in a net increase in state government revenue of \$7.9 million. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2015 would be \$6.8 million in 2004 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.

**pgam advanced technologies
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2015	Total
Total Employment	43	166	184	203	220	241	240	
Manufacturing	7	90	97	107	116	127	125	
Non-Manufacturing	36	76	87	96	104	114	115	
Retail Trade	8	12	14	16	17	18	18	
Services	18	41	44	48	52	56	57	
Other	10	23	29	32	35	40	40	
In Current Dollars (Thousands):								
Personal Income	\$1,801	\$6,836	\$8,362	\$9,857	\$11,350	\$13,000	\$16,910	\$128,146
Gross State Revenue	139	526	644	759	874	1,001	1,302	9,868
Mega Cost	0	118	137	156	178	204	256	1,962
State Revenue Net of MEGA Cost*	\$139	\$408	\$507	\$603	\$696	\$797	\$1,046	\$7,906
Adjusted for Inflation (Thousands of 2004 Dollars):								
Personal Income	\$1,772	\$6,567	\$7,865	\$9,082	\$10,245	\$11,499	\$13,539	\$111,031
Gross State Revenue	137	505	606	699	789	885	1,042	8,549
Mega Cost	0	113	129	144	161	181	205	1,700
State Revenue Net of MEGA Cost*	\$137	\$392	\$477	\$555	\$628	\$704	\$837	\$6,849

* 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.