

**The Economic Effects on Michigan
of the Asama Giken Location Decision**

**George A. Fulton
Peter Nicolas
Donald R. Grimes**

**University of Michigan
February 20, 1996**

Abstract

Asama Giken is considering locating in Michigan its first U.S. operation to produce exhaust manifolds for Honda Accords and minivans. By 1998, the facility would employ 300 people. We estimate that by 2007, this location will have generated a total of 595 jobs in the state. Total state government revenues through 2007, net of MEGA costs and adjusted for inflation, would be increased by \$16,860,000 (1996 dollars) due to the location of Asama Giken.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Asama Giken's locating its operations in the state to produce exhaust manifolds for Honda Accords and minivans (SIC 3714). The construction would take place in 1996, with an investment of \$29 million, and production would begin in April 1997. The facility would employ 300 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 2007, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 1998-2007 equal to 2.2 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 50 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 and investment in machinery and equipment is expected to generate a total of 249 jobs in 1996; almost all of these jobs are temporary. In 1999, the first year of full production, an additional 554 jobs are generated in the state. We estimate that by 2007, this facility will have generated a total of 595 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 expansion averages 1.9 over the period 1999-2007. 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 Asama Giken were to locate in Michigan under the incentive program, state personal

income in 1999 would be higher by \$24.4 million (in current dollars) than it would be without the facility, and in 2007 it would be \$41.9 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$19.5 million in 1999 and \$25.2 million in 2007.

The gain in economic activity results in higher state government revenues. The construction of the facility, investment in machinery and equipment, and the hiring of personnel to oversee the construction would generate \$808,000 in 1996 (in current dollars) in additional gross state revenue. Since there are no MEGA incentives offered in 1996, this value is also the impact on net state revenue. We estimate that in 1999, the first year of full production, the operation of the facility would generate \$1,952,000 in additional gross state government revenue, and that the MEGA package would provide a \$179,000 incentive to Asama Giken. Thus, the Asama Giken facility would generate an additional \$1,773,000 in revenue to state government in 1999, net of MEGA incentive costs.

Over the period 1996-2007, gross state government revenue is projected to increase by \$26,592,000 (in current dollars) due to the location of Asama Giken. The MEGA incentive package for Asama Giken is forecast to cost \$2,153,000 over the period, resulting in a net increase in state government revenue of \$24,439,000. Adjusted for inflation, the total net increase in state government revenue from 1996 to 2007 would be \$16,860,000 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 Asama Giken Plant Location
Net Benefits with the Incentive Package

Economic/Fiscal Indicator	1998	1999	2000	2005	2007	Total 1996-2007
Total Employment	351	554	564	577	595	—
Manufacturing	278	312	307	296	297	—
Nonmanufacturing	73	242	257	281	298	—
Retail Trade	23	57	58	57	61	—
Services	21	87	88	90	97	—
Other	29	98	111	134	140	—
In current dollars (thousands):						
Personal income	14,100	24,400	27,400	37,500	41,900	332,400
Gross state revenue	1,128	1,952	2,192	3,000	3,352	26,592
MEGA cost*	170	179	188	241	265	2,153
State revenue net of MEGA cost	958	1,773	2,004	2,759	3,087	24,439
Adjusted for inflation (thousands of 1996 dollars):						
Personal income	12,178	19,479	20,388	23,983	25,245	231,417
Gross state revenue	974	1,558	1,631	1,919	2,020	18,513
MEGA cost*	157	159	161	170	172	1,653
State revenue net of MEGA cost	817	1,399	1,470	1,749	1,847	16,860

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