

**The Economic Effects on Michigan of
the Atlantic Automotive Components, LLC, Facility Expansion Decision**

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

**University of Michigan
September 14, 2004**

Abstract

Atlantic Automotive Components, LLC, a plastic components and assembly automotive supplier, is considering leasing a 50,000-sq.-ft. facility to be added next to its current facility in Benton Harbor, Michigan. The facility would employ an additional 71 people by 2006. We estimate that by 2015, this expansion will have generated a total of 162 jobs in the state. Total state government revenues through 2015, net of MEGA costs and adjusted for inflation, would increase by \$5,490,000 due to the expansion of Atlantic Automotive Components, LLC.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if Atlantic Automotive Components, LLC, a plastic components and assembly automotive supplier, leases a 50,000-sq.-ft. facility to be added next to its current facility in Benton Harbor, Michigan (SIC 3714). Investment activity would take place between 2005 and 2006, with an investment of \$15.5 million. The facility would employ an additional 71 people by 2006.

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 2005 to 2015, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2006 to 2015 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 investment activity is expected to generate a total of 16 jobs in 2005 and 39 jobs in 2006; almost all of these jobs are temporary. In 2007, the first year of full operations without investment activity, an additional 183 jobs are generated in the state. We estimate that by 2015, this expansion will have generated a total of 162 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 expansion averages 2.3 over the period 2007 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

the table, if Atlantic Automotive Components, LLC, were to expand its operations in Michigan under the incentive program, state personal income in 2007 would be higher by \$10.1 million (in current dollars) than it would be without the expansion, and in 2015 it would be \$12.7 million higher. Adjusted for inflation, these numbers in 2004 dollars would be \$7.6 million in 2007 and \$8.5 million in 2015.

The gain in economic activity results in higher state government revenues. We estimate that in 2007, the first year of full operations without investment activity, the expanded facility would generate \$777,000 in additional gross state government revenue, and that the MEGA package would provide a \$110,000 incentive to Atlantic Automotive Components, LLC. Thus, the Atlantic Automotive Components, LLC, expansion would increase state government revenues in 2007 by \$667,000, net of MEGA incentive costs.

Over the period 2005 to 2015, gross state government revenue is projected to increase by \$8,767,000 (in current dollars) due to the expansion of Atlantic Automotive Components, LLC. The MEGA incentive package for Atlantic Automotive Components, LLC, is forecast to cost \$994,000 over the period, resulting in a net increase in state government revenue of \$7,773,000. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2015 would be \$5,490,000 in 2004 dollars.

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 Atlantic Automotive Components, LLC, Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2010	2015	Total 2005-2015
Total Employment	16	228	183	177	164	162	—
Manufacturing	2	93	84	81	78	77	—
Nonmanufacturing	14	135	99	96	86	85	—
Retail Trade	2	27	21	19	16	16	—
Services	5	51	33	31	25	24	—
Other	7	57	45	46	45	45	—
In current dollars (thousands):							
Personal income	800	10,900	10,100	10,600	11,000	12,700	114,000
Gross state revenue	62	838	777	815	846	977	8,767
MEGA cost**	0	110	110	108	98	96	994
State revenue net of MEGA cost*	62	728	667	707	748	881	7,773
Adjusted for inflation (thousands of 2004 dollars):							
Personal income	530	8,365	7,632	7,867	7,773	8,486	80,587
Gross state revenue	41	643	587	605	598	653	6,197
MEGA cost**	0	84	83	80	69	64	707
State revenue net of MEGA cost*	41	559	504	525	529	589	5,490

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

**Includes Renaissance Zone SBT credit.