

**The Economic Effects on Michigan of the
Covisint LLC Location Decision**

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Abstract

Covisint LLC is considering establishing its corporate headquarters in either Southfield or Detroit, Michigan. The company would operate an online marketplace and collaboration facility to enable electronic transactions between and among automotive suppliers, manufacturers and other parties for direct and indirect purchasing activities; it would also provide manufacturer-to-manufacturer connectivity tools, including automotive supply chain management and product development collaboration. The facility would employ 1000 people by 2006. We estimate that by 2021, this location will have generated a total of 1,966 jobs in the state. Total state government revenues through 2021, net of MEGA costs and adjusted for inflation, would increase by \$106,514,000 (2001 dollars) due to the location of Covisint LLC.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Covisint LLC establishing its corporate headquarters in either Southfield or Detroit, Michigan. The company would operate an online marketplace and collaboration facility to enable electronic transactions between and among automotive suppliers, manufacturers and other parties for direct and indirect purchasing activities; it would also provide manufacturer-to-manufacturer connectivity tools, including automotive supply chain management and product development collaboration (SIC 8611). Investment activity would take place between 2002 and 2006, with an investment of \$49.1 million. The facility would employ 1000 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 2002 to 2021, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2002 to 2021; it also includes 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 167 jobs in 2002, 6 jobs in 2005, and 9 jobs in 2006; almost all of these jobs are temporary. In 2007, the first year of full operations without investment activity, an additional 2,200 jobs are generated in the state. We estimate that by 2021, this location will have generated a total of 1,966 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 1.94 over the period 2007 to 2021. 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 Covisint LLC were to locate in Michigan under the incentive program, state personal income in 2007 would be higher by \$161.1 million (in current dollars) than it would be without the facility, and in 2021 it would be \$260 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$110.5 million in 2007 and \$134.6 million in 2021.

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 facility would generate \$12,616,000 in additional gross state government revenue, and that the MEGA package would provide a \$5,158,000 incentive to Covisint LLC. Thus, the Covisint LLC facility location would increase state government revenues in 2007 by \$7,458,000, net of MEGA incentive costs.

Over the period 2002 to 2021, gross state government revenue is projected to increase by \$264,347,000 (in current dollars) due to the location of Covisint LLC. The MEGA incentive package for Covisint LLC is forecast to cost \$83,194,000 over the period, resulting in a net increase in state government revenue of \$181,153,000. Adjusted for inflation, the total net increase in state government revenue from 2002 to 2021 would be \$106,514,000 in 2001 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 tax abatement and the tax credit 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 Covisint LLC Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	2007	2010	2015	2020	2021	Total 2002-2021
Total Employment	359	297	444	1,250	2,325	2,200	1,943	1,855	1,949	1,966	—
Manufacturing	17	11	15	47	80	51	0	0	14	18	—
Nonmanufacturing	342	286	429	1,203	2,245	2,149	1,943	1,855	1,935	1,948	—
Retail Trade	53	48	72	199	364	341	294	274	286	289	—
Services	151	205	312	845	1,531	1,470	1,349	1,300	1,334	1,344	—
Other	138	33	45	159	350	338	300	281	315	315	—
In current dollars (thousands):											
Personal income	17,400	18,400	28,500	78,400	152,400	161,100	175,900	204,000	249,500	260,000	3,338,400
Gross state revenue	1,392	1,383	2,178	6,149	12,004	12,616	13,838	16,151	19,960	20,800	264,347
MEGA cost	696	1,564	2,714	5,096	5,208	5,158	4,968	4,521	3,541	3,683	83,194
State revenue net of MEGA cost*	696	-181	-536	1,053	6,796	7,458	8,870	11,630	16,419	17,117	181,153
Adjusted for inflation (thousands of 2001 dollars):											
Personal income	13,860	13,708	21,262	58,083	109,749	110,454	111,614	118,800	131,614	134,593	2,002,924
Gross state revenue	1,109	1,031	1,625	4,555	8,644	8,650	8,781	9,406	10,529	10,767	158,474
MEGA cost	554	1,165	2,024	3,775	3,750	3,537	3,152	2,633	1,868	1,906	51,960
State revenue net of MEGA cost*	555	-134	-399	780	4,894	5,113	5,629	6,773	8,661	8,861	106,514

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