

**The Economic Effects on Michigan of
the Federal-Mogul Corporation Facility Retention Decision**

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Abstract

Federal-Mogul Corporation is considering investment to implement new environmentally friendly product lines at its manufacturing facilities in Greenville and St. Johns, Michigan, rather than move these operations to Puebla, Mexico. The facilities would retain up to 1,866 people starting in 2005. We estimate that by 2024, this project will have retained a total of 9,544 jobs in the state. Total state government revenues through 2024, net of MEGA costs and adjusted for inflation, would increase by \$479,539,000 (2004 dollars) due to the retention of Federal-Mogul Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if Federal-Mogul Corporation implements new environmentally friendly product lines at its manufacturing facilities in Greenville and St. Johns, Michigan (SIC 3562), rather than move these operations to Puebla, Mexico. Investment activity would take place between 2005 and 2009, with an investment of \$36.5 million. The facilities would retain up to 1,866 people starting in 2005.

The estimates of the benefits include the total number of jobs retained 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 2024, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2005 to 2024 equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees retained at the facilities as a result of the project.

The total employment effects, reported in the first line of the table, include the direct jobs retained at the facilities themselves 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 18 jobs in 2005, 26 jobs in 2006, 33 jobs in 2007, 18 jobs in 2008, and 19 jobs in 2009; almost all of these jobs are temporary. In 2010, the first year of operations without investment activity, 4,504 jobs are retained in the state. We estimate that by 2024, this project will have retained a total of 9,544 jobs in the state. The total number of jobs retained (direct plus spin-off) for every direct job retained constitutes the "employment multiplier." The employment multiplier for the retention averages 4.7 over the period 2010 to 2024. Sectoral detail on the employment retention 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 Federal-Mogul Corporation were to retain its operations in Michigan under the incentive program, state personal income in 2010 would be higher by \$366.5 million (in current dollars) than it would be without the retention, and in 2024 it would be \$1.1 billion higher. Adjusted for inflation, these numbers in 2004 dollars would be \$257.8 million in 2010 and \$568.5 million in 2024.

The retention of economic activity results in higher state government revenues. We estimate that in 2010, the first year of operations without investment activity, the facility retention would generate \$28,184,000 in gross state government revenue, and that the MEGA package would provide a \$3,849,000 incentive to Federal-Mogul Corporation. Thus, the Federal-Mogul Corporation retention would increase state government revenues in 2010 by \$24,335,000, net of MEGA incentive costs.

Over the period 2005 to 2024, gross state government revenue is projected to increase by \$885,611,000 (in current dollars) due to the retention of Federal-Mogul Corporation. The MEGA incentive package for Federal-Mogul Corporation is forecast to cost \$104,524,000 over the period, resulting in a net increase in state government revenue of \$781,087,000. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2024 would be \$479,539,000 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 retention, location, or expansion decisions.

**Economic and Fiscal Effects on Michigan of the Federal-Mogul Corporation Facility Retention
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2015	2020	2024	Total 2005-2024
Total Employment	6,448	5,331	4,904	4,546	4,438	4,504	5,567	7,466	9,544	—
Manufacturing	2,263	1,828	1,675	1,538	1,478	1,472	1,536	1,670	1,793	—
Nonmanufacturing	4,185	3,503	3,229	3,008	2,960	3,032	4,031	5,796	7,751	—
Retail Trade	1,015	829	755	698	681	694	885	1,234	1,623	—
Services	1,666	1,332	1,204	1,101	1,079	1,108	1,549	2,338	3,220	—
Other	1,504	1,342	1,270	1,209	1,200	1,230	1,597	2,224	2,908	—
In current dollars (thousands):										
Personal income	359,600	342,800	344,000	341,600	349,500	366,500	511,800	777,000	1,106,400	11,516,400
Gross state revenue	27,653	26,361	26,454	26,269	26,877	28,184	39,357	59,751	85,082	885,611
MEGA cost	4,443	3,773	3,713	3,662	3,692	3,849	4,874	6,461	8,368	104,524
State revenue net of MEGA cost*	23,210	22,588	22,741	22,607	23,185	24,335	34,483	53,290	76,714	781,087
Adjusted for inflation (thousands of 2004 dollars):										
Personal income	297,245	266,433	257,293	248,749	249,541	257,790	327,473	441,563	568,481	7,087,497
Gross state revenue	22,858	20,489	19,786	19,129	19,189	19,824	25,183	33,956	43,716	545,029
MEGA cost	3,673	2,932	2,777	2,667	2,636	2,707	3,119	3,672	4,300	65,490
State revenue net of MEGA cost*	19,185	17,557	17,009	16,462	16,553	17,117	22,064	30,284	39,416	479,539

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