

**The Economic Effects on Michigan
of the Howmet International Facility Location Decision**

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Abstract

Howmet International, Inc. is considering locating a new facility in Whitehall to produce precision superalloy investment castings for the jet aircraft market. The new facility would employ 580 people by 2001. We estimate that by 2018, this location will have generated a total of 1,566 jobs in the state. Total state government revenues through 2018, net of MEGA costs and adjusted for inflation, would increase by \$78,182,000 (1998 dollars) due to the location of Howmet International, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Howmet International, Inc. locating a new facility in Whitehall to produce precision superalloy investment castings for the jet aircraft market (SIC 3324). Investment activity would take place between 1998 and 1999, with an investment of \$52.82 million, and production would begin in July 1999. The new facility would employ 580 people by 2001.

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 1998 to 2018, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 1999 to 2018, and a tax credit to the company for the same period equal to 4.4 percent of the payroll (gross wages) of employees hired at the facility as a result of the location. The payroll tax credit represents 100 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 is expected to generate a total of 44 jobs in 1998 and 343 jobs in 1999; almost all of these jobs are temporary. In 2002, the first year of full operations, an additional 1,345 jobs are generated in the state. We estimate that by 2018, this facility addition will have generated a total of 1,566 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 2.4 over the period 2002 to 2018. 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 Howmet International, Inc. were to locate in Michigan under the incentive program, state personal income in 2002 would be higher by \$74 million (in current dollars) than it would be without the facility, and in 2018 it would be \$157.3 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$54.3 million in 2002 and \$78.4 million in 2018.

The gain in economic activity results in higher state government revenues. We estimate that in 2002, the first year of full operations, the facility would generate \$5,920,000 in additional gross state government revenue, and that the MEGA package would provide a \$1,256,000 incentive to Howmet International, Inc. Thus, the Howmet International, Inc. facility location would increase state government revenues in 2002 by \$4,664,000, net of MEGA incentive costs.

Over the period 1998 to 2018, gross state government revenue is projected to increase by \$159,544,000 (in current dollars) due to the location of Howmet International, Inc. The MEGA incentive package for Howmet International, Inc. is forecast to cost \$30,568,000 over the period, resulting in a net increase in state government revenue of \$128,976,000. Adjusted for inflation, the total net increase in state government revenue from 1998 to 2018 would be \$78,182,000 in 1998 dollars. These calculations do not include any revenue losses due to the property tax abatement or the Capital Acquisition Deduction. If the cost of the abatement or the CAD 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 expansion and location decisions.

**Economic and Fiscal Effects on Michigan of the Howmet International, Inc. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1998	1999	2000	2001	2002	2005	2010	2015	2018	Total 1998-2018
Total Employment	44	425	1,154	1,316	1,345	1,301	1,339	1,476	1,566	—
Manufacturing	1	115	508	614	606	580	580	584	591	—
Nonmanufacturing	43	310	646	702	739	721	759	892	975	—
Retail Trade	5	52	152	165	165	146	142	156	167	—
Services	7	89	229	240	247	231	255	323	371	—
Other	31	169	265	297	327	344	362	413	437	—
In current dollars (thousands):										
Personal income	1,700	18,600	53,200	67,200	74,000	84,700	104,500	134,600	157,300	1,994,300
Gross state revenue	136	1,488	4,256	5,376	5,920	6,776	8,360	10,768	12,584	159,544
MEGA cost	0	145	971	1,206	1,256	1,382	1,635	1,940	2,162	30,568
State revenue net of MEGA cost*	136	1,343	3,285	4,170	4,664	5,394	6,725	8,828	10,422	128,976
Adjusted for inflation (thousands of 1998 dollars):										
Personal income	1,700	15,511	43,084	51,273	54,307	57,176	63,589	72,797	78,437	1,211,097
Gross state revenue	136	1,241	3,447	4,102	4,345	4,574	5,087	5,824	6,275	96,888
MEGA cost	0	121	786	920	922	933	995	1,049	1,078	18,706
State revenue net of MEGA cost*	136	1,120	2,661	3,182	3,423	3,641	4,092	4,775	5,197	78,182

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