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# The Fiscal Impacts of the Continental Tire AG Project (Project Potter) in Mississippi, 2017-2040

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The Continental Tire AG manufacturing plant, previously known as Project Potter, will be located in Hinds County, Mississippi and employ at least 2,500 workers by 2025. Capital expenditures on this facility will total an estimated \$1.45 billion. The State awarded Continental Tire \$262 million in Mississippi Major Economic Impact Act funding<sup>1</sup> and a number of non-cash economic development incentives.

Analysis of this project indicates that it would generate a net positive annual return to Mississippi in year eight, 2024. Due to the economic impacts associated with the construction phase of this project, net cumulative returns to the State are positive starting in year one (2017).

### Information from MDA

Information used in the analysis of this project was provided by the Mississippi Development Authority (MDA). The relevant characteristics of this project are:

- Capital expenditures by the firm – \$1.45 billion
- 2,500 jobs will be created within 9 years of the beginning of production
- Average salary will be \$40,000/year
- The State investment in this project is \$242 million and Hinds County will invest \$20 million
- State General Obligation Bonds for this project will be issued in the following amounts and dates:
  - 2017 – \$56.6 million
  - 2018 – \$59.7 million
  - 2019 – \$59.7 million
  - 2020 – \$66.0 million
- The State is providing a Corporate Income Tax exemption for 25 years
- The State is providing a Sales/Use Tax exemption in perpetuity
- The firm will pay \$25,000 annual fee-in-lieu of Franchise Taxes
- The State will provide a withholding rebate equal to the lessor of 3.5% of actual wages and taxable benefits or the actual amount of tax withheld for 25 years
- Anticipated start of production is 2019

### Assumptions

The inflation rate is assumed to be 3.5% during the study period and real wages are assumed to increase 1% annually. All dollar values are expressed in nominal dollars.

### Methodology

The University Research Center (URC) uses the REMI-Tax PI software to estimate changes in State revenue and expenditures resulting from an economic development project or change in State tax policy.<sup>2</sup>

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<sup>1</sup> The State awarded \$242 million and loaned Hinds County \$20 million to apply toward this project which will be paid back to the State. All \$262 million will be financed with general obligation bonds.

<sup>2</sup> Documentation describing this model can be found at <http://www.remi.com/resources/documentation>.

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The first step in the analysis of this project was to run the model to establish a baseline projection for 13 categories of State taxes. Currently, the model (REMI) will estimate these values out to 2060. The analysis of Continental Tire was conducted to the year 2040. This baseline model run projects the taxes that would likely accrue in the absence of any net, new economic activity in the State. In REMI, this baseline run is referred to as the Regional Control. The second step is to shock the model: add a new firm (Continental Tire) or industry. The results of the model run are referred to as the Regional Simulation. The difference between the Regional Control results and the Regional Simulation results is the estimated impact of the new firm/industry.

For the analysis of a new project, a shock to the model can be inserted in a number of ways: additional direct jobs, additional direct income, or increased production in the industrial sector. This analysis uses net new direct jobs as the shock (and an adjustment in the model to reflect that the Continental Tire average annual wage was slightly lower than the industry average). The values in the "Additions to State general fund revenue from operations" is the sum of the net new taxes created by the direct and secondary (indirect and induced) jobs created in Mississippi from this new industry minus the taxes foregone due to the non-cash incentive package they received.

The Regional Simulation estimates the direct, indirect, and induced effects associated with the new firm/industry. Direct effects are "inside the plant gate" effects. MDA provided the direct effect which was inserted into REMI to shock the model. The firm must purchase inputs to produce the goods or services it sells and must employ workers to produce those goods or services. When firms purchase inputs from suppliers in Mississippi, they create jobs, income, and State taxes that were not previously here. The indirect effect includes the new jobs, income, and taxes created by the suppliers as a result of increased demand from the original firm (Continental Tire). Both the employees at Continental Tire and at the Mississippi suppliers of inputs to Continental Tire spend their wages in the Mississippi economy to buy the things needed to support their households (groceries, clothing, entertainment, etc.). All of these purchases made from Mississippi merchants create new jobs, income, and State tax revenue. The impact of these purchases is referred to as the induced effect. The sum of these three effects (direct, indirect, and induced) is the total impact of the project.

The increase in demand for State government services was addressed by utilizing a Balanced Budget methodology. New revenues were mapped to each expenditure category to create a balanced budget: new revenue and new expenditures resulting from this project. The new expenditures are estimated based on the demand for each category of expenditures. Due to differences in demand for each expenditure category, the new revenues augment the expenditure categories with the greatest demand. All categories benefit, some more than others.

Additions to State general fund revenue from operations are reported in nominal dollars and assumes an annual rate of inflation of 3% and a 1% increase in real wages.

## **Construction Impacts**

An estimated \$1.45 billion will be spent on construction of the Continental Tire facility (infrastructure improvements, site preparation, building construction, and equipment installation). Construction impacts will occur for about five years. The construction of this facility will generate an estimated 19,600 man-years of total employment (direct plus secondary) during this five-year period. Approximately 13,850 of these man-years of employment will be construction jobs. The remaining 5,750 man-years of employment will be jobs at firms supplying construction materials as well as goods and services to employees. Detailed fiscal impacts associated with the construction of the Continental Tire facility (Regional Simulation—Differences) are shown in Table 1. Total additions to State general fund revenue from construction are estimated to be \$83.5 million.

Table 1. Project Potter Construction Phase, REMI Tax-PI, Regional Simulation—Differences (Millions of Dollars)

Category	FY2017	FY2018	FY2019	FY2020	FY2021
Sales Tax	9.050	12.787	5.134	1.960	1.330
Individual Income Tax	8.887	12.423	4.678	0.453	0.016
Corporate Income Tax	3.472	4.835	1.791	0.277	0.190
Use Tax	1.077	1.521	0.611	0.233	0.206
Gaming Fees and Tax	0.313	0.268	0.246	0.293	0.052
Insurance Premium Tax	0.871	1.231	0.494	0.189	0.142
Tobacco Tax	0.230	0.434	0.338	0.486	0.336
Alcoholic Beverage Tax	0.103	0.195	0.152	0.220	0.144
Beer and Wine Tax	0.276	0.390	0.153	0.039	0.012
Oil and Gas Severance Tax	0.714	1.010	0.395	0.092	0.030
Privilege Tax	0.096	0.136	0.053	0.014	0.004
Highway Safety Patrol	0.188	0.265	0.114	0.027	0.008
All other Taxes	0.675	0.816	0.241	0.096	0.030
<b>TOTAL</b>	<b>25.951</b>	<b>36.311</b>	<b>14.400</b>	<b>4.378</b>	<b>2.500</b>

## Operations

The operation of this facility is scheduled to commence in 2019 with approximately 500 employees. Employment will ramp-up to 2,500 by 2025. As employment and production increase, additions to State general fund revenue also increase. As shown in Table 2, annual additions to State general fund revenue increase from \$3.78 million in 2019 to \$24.76 million in 2025 when the firm reaches its full employment goal of 2,500. By 2040, annual additions to State general fund revenue are estimated to equal \$61.79 million. This analysis assumes a 3% rate of inflation and 1% growth in real wage growth.

Table 2. Project Potter Operations Phase, REMI Tax-PI, Regional Simulation—Differences (Millions of Dollars) for years 2019-2029

Category	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Sales Tax	0.631	1.765	2.531	3.351	4.241	5.209	6.262	7.405	8.645	9.644	10.329
Individual Income Tax	1.148	3.101	4.285	5.472	6.685	7.936	9.239	10.608	12.056	13.129	13.760
Corporate Income Tax	0.337	0.896	1.236	1.585	1.955	2.347	2.766	3.213	3.693	4.063	4.297
Use Tax	0.075	0.210	0.301	0.399	0.504	0.620	0.745	0.881	1.029	1.148	1.229
Gaming Fees and Tax	0.177	0.448	0.604	0.762	0.928	1.098	1.275	1.461	1.654	1.790	1.860
Insurance Premium Tax	0.061	0.170	0.244	0.323	0.408	0.501	0.602	0.713	0.832	0.928	0.994
Tobacco Tax	0.021	0.084	0.145	0.217	0.300	0.392	0.493	0.604	0.724	0.824	0.898
Alcoholic Beverage Tax	0.010	0.038	0.065	0.099	0.135	0.177	0.222	0.272	0.326	0.371	0.403
Beer and Wine Tax	0.023	0.062	0.087	0.111	0.136	0.162	0.190	0.219	0.249	0.271	0.285
Oil and Gas Severance Tax	0.060	0.162	0.224	0.287	0.353	0.420	0.491	0.565	0.644	0.703	0.737
Privilege Tax	0.008	0.022	0.030	0.039	0.047	0.056	0.066	0.076	0.087	0.094	0.099
Highway Safety Patrol	0.016	0.043	0.059	0.076	0.093	0.110	0.129	0.148	0.169	0.184	0.193
All other Taxes	0.057	0.153	0.212	0.272	0.333	0.397	0.465	0.535	0.609	0.664	0.697
<b>TOTAL</b>	<b>2.624</b>	<b>7.155</b>	<b>10.024</b>	<b>12.992</b>	<b>16.120</b>	<b>19.426</b>	<b>22.944</b>	<b>26.698</b>	<b>30.716</b>	<b>33.813</b>	<b>35.781</b>

Table 2. Project Potter Operations Phase, REMI Tax-PI, Regional Simulation—Differences (Millions of Dollars) for years 2030–2040

Category	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Sales Tax	10.992	11.645	12.297	12.970	13.672	14.399	15.157	16.011	16.972	18.036	18.959
Individual Income Tax	14.364	14.954	15.554	16.187	16.864	17.581	18.347	19.230	20.254	21.417	22.419
Corporate Income Tax	4.521	4.738	4.955	5.181	5.418	5.668	5.931	6.232	6.574	6.957	7.285
Use Tax	1.307	1.385	1.463	1.543	1.627	1.713	1.803	1.904	2.019	2.145	2.256
Gaming Fees and Tax	1.920	1.973	2.022	2.070	2.119	2.168	2.218	2.279	2.350	2.432	2.489
Insurance Premium Tax	1.058	1.121	1.183	1.249	1.316	1.386	1.459	1.541	1.633	1.736	1.825
Tobacco Tax	0.969	1.037	1.105	1.177	1.252	1.330	1.413	1.506	1.609	1.724	1.825
Alcoholic Beverage Tax	0.434	0.463	0.493	0.523	0.555	0.588	0.622	0.660	0.704	0.754	0.798
Beer and Wine Tax	0.297	0.310	0.323	0.335	0.350	0.365	0.381	0.398	0.420	0.445	0.465
Oil and Gas Severance Tax	0.770	0.803	0.835	0.870	0.906	0.945	0.986	1.034	1.088	1.150	1.203
Privilege Tax	0.104	0.108	0.113	0.117	0.121	0.127	0.132	0.139	0.146	0.155	0.161
Highway Safety Patrol	0.202	0.211	0.219	0.229	0.238	0.248	0.259	0.272	0.286	0.302	0.316
All other Taxes	0.730	0.760	0.791	0.824	0.857	0.895	0.934	0.979	1.029	1.088	1.138
<b>TOTAL</b>	<b>37.667</b>	<b>39.509</b>	<b>41.353</b>	<b>43.273</b>	<b>45.296</b>	<b>47.413</b>	<b>49.643</b>	<b>52.185</b>	<b>55.087</b>	<b>58.340</b>	<b>61.140</b>

## Conclusions

Due to strong tax receipts from the construction phase, cumulative additions to State general fund revenue are positive in every year from 2017 through 2040 (see Table 3). Although cumulative additions are positive in every year, they are diminishing in 2020 through 2023 due to the negative annual additions experienced during those years. By 2025, cumulative additions to State general fund revenue are estimated to be \$47.35 million, \$126.89 million by 2030, and \$486.79 million by 2040.

Table 3. Project Potter General Fund Additions and State Costs, 2017–2040

	Annual Additions to State General Fund Revenue From Construction	Annual Additions to State General Fund Revenue From Operations	Annual Costs to the State	Net Annual Additions to State General Fund Revenue	Net Cumulative Additions to State General Fund Revenue
<b>FY2017</b>	\$25,950,800	\$0	\$4,164,727	\$21,786,073	\$21,786,073
<b>FY2018</b>	\$36,310,000	\$0	\$8,754,233	\$27,555,767	\$49,341,840
<b>FY2019</b>	\$14,400,000	\$3,784,754	\$13,544,715	\$4,640,039	\$53,981,879
<b>FY2020</b>	\$4,377,800	\$8,968,330	\$18,840,726	- \$5,494,596	\$48,487,283
<b>FY2021</b>	\$2,500,000	\$11,836,862	\$18,840,726	- \$4,503,864	\$43,983,419
<b>FY2022</b>	\$0	\$14,805,340	\$18,840,726	- \$4,035,386	\$39,948,032
<b>FY2023</b>	\$0	\$17,933,066	\$18,840,726	- \$907,660	\$39,040,372
<b>FY2024</b>	\$0	\$21,239,104	\$18,840,726	\$2,398,378	\$41,438,750
<b>FY2025</b>	\$0	\$24,757,698	\$18,840,726	\$5,916,972	\$47,355,722
<b>FY2026</b>	\$0	\$28,511,692	\$18,840,726	\$9,670,966	\$57,026,688
<b>FY2027</b>	\$0	\$32,529,234	\$18,840,726	\$13,688,508	\$70,715,196
<b>FY2028</b>	\$0	\$35,626,256	\$18,840,726	\$16,785,530	\$87,500,726
<b>FY2029</b>	\$0	\$37,594,670	\$18,840,726	\$18,753,944	\$106,254,670

Table 3. Project Potter General Fund Additions and State Costs, 2017-2040 (continued)

	Annual Additions to State General Fund Revenue From Construction	Annual Additions to State General Fund Revenue From Operations	Annual Costs to the State	Net Annual Additions to State General Fund Revenue	Net Cumulative Additions to State General Fund Revenue
<b>FY2030</b>	\$0	\$39,480,754	\$18,840,726	\$20,640,028	\$126,894,698
<b>FY2031</b>	\$0	\$41,322,444	\$18,840,726	\$22,481,718	\$149,376,416
<b>FY2032</b>	\$0	\$43,166,208	\$18,840,726	\$24,325,482	\$173,701,897
<b>FY2033</b>	\$0	\$45,086,632	\$18,840,726	\$26,245,906	\$199,947,803
<b>FY2034</b>	\$0	\$47,109,244	\$18,840,726	\$28,268,518	\$228,216,321
<b>FY2035</b>	\$0	\$49,226,424	\$18,840,726	\$30,385,698	\$258,602,019
<b>FY2036</b>	\$0	\$51,456,668	\$18,840,726	\$32,615,942	\$291,217,961
<b>FY2037</b>	\$0	\$53,816,012	\$14,675,999	\$39,140,013	\$330,357,974
<b>FY2038</b>	\$0	\$56,328,704	\$10,086,493	\$46,242,211	\$376,600,185
<b>FY2039</b>	\$0	\$58,992,058	\$5,296,011	\$53,696,047	\$430,296,232
<b>FY2040</b>	\$0	\$61,791,750	\$5,296,011	\$56,495,739	\$486,791,971

The net new jobs created in Mississippi associated with the operations of Continental Tire are estimated to be 5,225 when the firm reaches full employment of 2,500. Total employment (direct, indirect, and induced) continues to grow in the future as more suppliers locate in Mississippi.

An estimated 80% of the jobs will go to current Mississippi workers. About 20% will go to new economic migrants. Current workers in Mississippi who take these new jobs will be moving up from a lesser job to a better job (better pay and benefits). Less skilled or less experienced workers will compete for the jobs they leave behind. Some new workers will move to Mississippi to take a job at Continental and some will take jobs at firms that provide the firm production inputs or firms that provide goods and services to the firms' employees. Many workers will "ratchet up" to a better job as an opportunity is created for workers to move up the economic ladder.