

**The Economic Effects on Michigan of the
Krestec Engineering, LLC Facility Location Decision**

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Abstract

Krestec Engineering, LLC is considering building a new 256,000 square foot building in Dundee, Michigan to house an automotive metal stamping and assembly plant. The facility would employ an additional 280 people by 2006. We estimate that by 2014, this location will have generated a total of 585 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by \$24,354,000 (2001 dollars) due to the location of Krestec Engineering, LLC.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Krestec Engineering, LLC building a new 256,000 square foot building in Dundee, Michigan to house an automotive metal stamping and assembly plant (SIC 3465). Investment activity would take place between 2001 and 2004, with an investment of \$36.74 million. The facility would employ an additional 280 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 2001 to 2014, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2003 to 2013 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, and equal to 50 percent in the year 2014.

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. In 2006, the first year of full operations, an additional 641 jobs are generated in the state. We estimate that by 2014, this location will have generated a total of 585 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 2.1 over the period 2006 to 2014. 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 Krestec Engineering, LLC were to locate in Michigan under the incentive program, state personal income in 2006 would be higher by \$39.4 million (in current dollars) than it would

be without the facility, and in 2014 it would be \$50.7 million higher. Adjusted for inflation, these numbers in 2001 dollars would be \$28.8 million in 2006 and \$32.6 million in 2014.

The gain in economic activity results in higher state government revenues. We estimate that in 2006, the first year of full operations, the facility would generate \$3,152,000 in additional gross state government revenue, and that the MEGA package would provide an \$306,000 incentive to Krestec Engineering, LLC. Thus, the Krestec Engineering, LLC facility location would increase state government revenues in 2006 by \$2,846,000, net of MEGA incentive costs.

Over the period 2001 to 2014, gross state government revenue is projected to increase by \$38,408,000 (in current dollars) due to the location of Krestec Engineering, LLC. The MEGA incentive package for Krestec Engineering, LLC is forecast to cost \$3,452,000 over the period, resulting in a net increase in state government revenue of \$34,956,000. Adjusted for inflation, the total net increase in state government revenue from 2001 to 2014 would be \$24,354,000 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 Krestec Engineering, LLC Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2001	2002	2003	2004	2005	2006	2007	2010	2014	Total 2001-2014
Total Employment	43	155	253	435	513	641	627	584	585	—
Manufacturing	1	39	103	175	247	307	302	291	290	—
Nonmanufacturing	42	116	150	260	266	334	325	293	295	—
Retail Trade	5	18	30	51	60	73	69	60	57	—
Services	7	35	44	85	91	114	108	91	94	—
Other	30	63	76	124	115	147	148	142	144	—
In current dollars (thousands):										
Personal income	1,800	7,400	13,100	23,600	30,100	39,400	41,500	44,700	50,700	480,100
Gross state revenue	144	592	1,048	1,888	2,408	3,152	3,320	3,576	4,056	38,408
MEGA cost	0	0	94	153	237	306	316	350	202	3,452
State revenue net of MEGA cost**	144	592	954	1,735	2,171	2,846	3,004	3,226	3,854	34,956
Adjusted for inflation (thousands of 2001 dollars):										
Personal income	1,800	6,271	10,585	18,162	22,609	28,762	29,544	30,600	32,630	334,393
Gross state revenue	144	502	847	1,453	1,809	2,301	2,363	2,448	2,610	26,751
MEGA cost	0	0	76	118	178	223	225	240	130	2,397
State revenue net of MEGA cost**	144	502	771	1,335	1,631	2,078	2,138	2,208	2,480	24,354

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