

**The Economic Effects on Michigan of the
Chrysler Financial Corporation Facility Expansion Decision**

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Abstract

Chrysler Financial Company and the Mercedes-Benz Credit Corporation are considering merging into the Chrysler Financial Corporation and establishing their headquarters in Auburn Hills, Michigan. Over the course of the next four years, 550 jobs would be transferred to this new facility from Connecticut, Texas, and Georgia, and 744 additional persons would be hired due to increased business activity. We estimate that by 2018, this merger will have generated a total of 3,514 jobs in the state. Total state government revenues through 2018, net of MEGA costs and adjusted for inflation, would increase by \$599,391,000 (1999 dollars) due to the merger.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Chrysler Financial Company and the Mercedes-Benz Credit Corporation merging into the Chrysler Financial Corporation and establishing their headquarters in Auburn Hills, Michigan (SIC 6159). Over the course of the next four years, 550 jobs would be transferred to this new facility from Connecticut, Texas, and Georgia, and 744 additional persons would be hired due to increased business activity. Investment activity would take place between 2000 and 2002, with an investment of \$77.4 million. The new facility would employ 1,294 people and be at full production by 2004.

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 2000 to 2018, are shown in the attached table. The MEGA incentive package includes a tax credit to the company equal to 75 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 233 jobs in 2000, 454 jobs in 2001, and 253 jobs in 2002; almost all of these jobs are temporary. In 2004, the first year of full operations, an additional 5,154 jobs are generated in the state. We estimate that by 2018, this expansion will have generated a total of 3,514 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 expansion averages 3.0 over the period 2004 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 Chrysler Financial Company and the Mercedes-Benz Credit Corporation were to merge in Michigan under the incentive program, state personal income in 2004 would be higher by \$643.4 million (in current dollars) than it would be without the facility, and in 2018 it would be \$980.1 million higher. Adjusted for inflation, these numbers in 1999 dollars would be \$483.4 million in 2004 and \$497.5 million in 2018.

The gain in economic activity results in higher state government revenues. We estimate that in 2004, the first year of full operations, the facility would generate \$51,472,000 in additional gross state government revenue, and that the MEGA package would provide a \$3,002,000 incentive to Chrysler Financial Corporation. Thus, the merger would increase state government revenues in 2004 by \$48,470,000, net of MEGA incentive costs.

Over the period 2000 to 2018, gross state government revenue is projected to increase by \$1,025,008,000 (in current dollars) due to the merger. The MEGA incentive package for Chrysler Financial Corporation is forecast to cost \$64,642,000 over the period, resulting in a net increase in state government revenue of \$960,366,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2018 would be \$599,391,000 in 1999 dollars. These calculations do not include any revenue losses due to the investment tax credit. If the cost of 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 Chrysler Financial Corporation Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2004	2005	2010	2015	2018	Total 2000-2018
Total Employment	785	1,541	3,804	4,261	5,154	4,771	3,732	3,511	3,514	—
Manufacturing	23	35	78	31	7	0	0	0	0	—
Nonmanufacturing	762	1,506	3,726	4,230	5,147	4,771	3,732	3,511	3,514	—
Finance, Insurance & Real Estate	154	311	983	1,221	1,509	1,461	1,296	1,294	1,294	—
Retail Trade	178	349	960	1,124	1,370	1,297	1,097	1,046	1,036	—
Services	187	364	1,046	1,200	1,455	1,331	1,054	1,071	1,116	—
Other	243	482	737	685	813	682	285	100	68	—
In current dollars (thousands):										
Personal income	61,200	130,900	386,400	496,600	643,400	661,000	740,200	873,900	980,100	12,812,600
Gross state revenue	4,896	10,472	30,912	39,728	51,472	52,880	59,216	69,912	78,408	1,025,008
MEGA cost	267	552	1,814	2,353	3,002	3,113	3,707	4,472	5,015	64,642
State revenue net of MEGA cost*	4,629	9,920	29,098	37,375	48,470	49,767	55,509	65,440	73,393	960,366
Adjusted for inflation (thousands of 1999 dollars):										
Personal income	52,780	107,591	312,735	385,593	483,403	477,882	465,850	479,631	497,471	7,993,284
Gross state revenue	4,223	8,607	25,019	30,847	38,672	38,231	37,268	38,371	39,798	639,463
MEGA cost	230	454	1,468	1,827	2,255	2,251	2,333	2,455	2,546	40,072
State revenue net of MEGA cost*	3,993	8,153	23,551	29,020	36,417	35,980	34,935	35,916	37,252	599,391

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