

**The Economic Effects on Michigan of the
Compact Power, Inc. Expansion**

Prepared by the Michigan Economic Development Corporation utilizing Regional
Economic Models, Incorporated (REMI) software.

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Abstract

Compact Power, Inc. is considering expanding its research and development facilities in Troy, Michigan. The new facility would employ up to 168 people by the end of 2009. We estimate that by 2014, this location will have generated a total of 298 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by \$7.887 million (2005 dollars) due to the expansion of the Compact Power, Inc. project.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Compact Power, Inc. expanding its a research and development facilities in Troy. Investment activity would take place between 2005 and 2009 with an investment of \$15.0 million. The facility would employ an additional 168 people and would be at full production by 2009.

The estimates of the benefits attributable to the project 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 2005 to 2014, are shown in the attached table. The MEGA incentive package includes a tax credit to the company equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility for the period 2005 to 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 created from two sources, increased purchases from Michigan suppliers and spending by people who receive income due to the increased economic activity. In 2009, the first year of full operations, an additional 325 jobs are generated in the state. The total number of jobs (direct plus spin-off) for every direct job introduced constitutes the "employment multiplier." The employment multiplier for the expansion averages 1.52 over the period 2005 to 2014. Sectoral detail on the employment 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 Compact Power, Inc. were to expand in Michigan under the incentive program, state personal income in 2009 would be higher by \$19.9 million (in current dollars) than it would be without the facility, and in 2014, it would be \$24.1 million higher. Adjusted for inflation, these numbers in 2005 dollars would be \$18.2 million in 2009 and \$20.0 million in 2014.

The gain in economic activity results in higher government revenues. We estimate that in 2010, the first year of full operations without investment activity, the facility would generate \$1.59 million in additional gross state revenue, and that the MEGA package

would provide a \$495,000 incentive to Compact Power, Inc. Thus, the new Compact Power, Inc. facility would increase state revenues in 2010 by \$1.1 million, net of MEGA costs.

Over the period 2005 to 2014 state government revenue is projected to increase by \$13.2 million (in current dollars) due to the new Compact Power, Inc. facility. The MEGA incentive package for Compact Power, Inc. is forecast to cost \$4.32 million over the period, resulting in a net increase in state government revenue of \$8.87 million. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2014 would be \$7.89 million in 2005 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 abatement and the tax credit were included, the net revenue gain to state government would be slightly less.

None of the 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.

Compact Power, Inc.
Summary Estimates
(all estimates in 2005 dollars)

TOTAL JOBS CREATED	298
Direct	168
Indirect	130
NET POSITIVE STATE REVENUE IMPACT	\$7,887,000
Revenue Foregone	\$3,862,000
Revenue Gain	\$11,749,000
Personal Income Generated Over Life of MEGA Agreement	\$152,554,000
Average Weekly Wage	\$1,289
Statewide Employment Multiplier	1.52

**Compact Power, Inc.
Economic and Fiscal Effects on Michigan - Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2011	2014	Total
Total Employment	40	140	230	293	325	313	311	298	
Manufacturing	2	4	6	5	5	3	3	1	
Non-Manufacturing	38	136	224	288	320	310	308	297	
Retail Trade	5	14	24	28	30	28	28	27	
Services	26	101	166	216	239	231	227	218	
Other	7	21	34	44	51	51	53	52	
In Current Dollars (Thousands):									
Personal Income	\$2,136	\$7,385	\$12,760	\$17,060	\$19,870	\$20,660	\$21,610	\$24,110	\$171,361
Gross State Revenue	164	569	983	1,314	1,530	1,591	1,664	1,856	13,196
Mega Cost	87	195	415	436	475	495	517	596	4,324
State Revenue Net of MEGA Cost*	\$77	\$374	\$568	\$878	\$1,055	\$1,096	\$1,147	\$1,260	\$8,872
Adjusted for Inflation (Thousands of 2005 Dollars):									
Personal Income	\$2,136	\$7,212	\$12,202	\$15,981	\$18,234	\$18,578	\$19,045	\$20,019	\$152,554
Gross State Revenue	164	556	940	1,231	1,404	1,431	1,467	1,541	11,749
Mega Cost	87	190	397	409	436	445	456	495	3,862
State Revenue Net of MEGA Cost*	\$77	\$366	\$543	\$822	\$968	\$986	\$1,011	\$1,046	\$7,887

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