

**The Economic Effects on Michigan of  
the DaimlerChrysler Corporation Facility Retention Decision**

**George A. Fulton  
Peter Nicolas  
Donald R. Grimes**

**University of Michigan  
February 15, 2005**

### Abstract

*DaimlerChrysler Corporation is considering the retention of its Sterling Heights Assembly and Sterling Stamping facilities that it operates in Sterling Heights, Michigan. The project would include replacements for the Chrysler Sebring and Dodge Stratus mid-size vehicles. The facilities would retain over 5,100 workers starting in 2006. We estimate that by 2010, this project will have retained a total of 20,782 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would increase by \$486,859,000 (2005 dollars) due to the retention of the DaimlerChrysler Sterling Heights facilities.*

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if DaimlerChrysler Corporation retains its Sterling Heights Assembly and Sterling Stamping facilities that it operates in Sterling Heights, Michigan (SIC 3711). Investment activity would take place between 2006 and 2009, with an investment of \$506.8 million. The facilities would retain over 5,100 workers starting in 2006.

The estimates of the benefits include the total number of jobs retained 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 2006 to 2010, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2006 to 2010 equal to 40 percent of the state income tax rate on the payroll (gross wages) of employees retained at the facilities.

The total employment effects, reported in the first line of the table, include the direct jobs retained at the facilities themselves 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 investment activity is expected to generate a total of 894 jobs in 2006, 521 jobs in 2007, and 164 jobs in 2008; almost all of these jobs are temporary. In 2010, the first year of full operations without investment activity, 20,782 jobs are retained in the state. The total number of jobs retained (direct plus spin-off) for every direct job retained constitutes the "employment multiplier." The employment multiplier for the retention is 4.0 in 2010. Sectoral detail on the employment retention 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 DaimlerChrysler were to retain its operations in Sterling Heights under the incentive program, state personal income in 2010 would be higher by \$1,781.9 million (in current dollars)

than it would be without the retention. Adjusted for inflation, state personal income in 2005 dollars would be \$1,317.7 million in 2010.

The gain in economic activity results in higher state government revenues. We estimate that in 2010, the first year of full operations without investment activity, the retention of the facilities would generate \$137,028,000 in gross state government revenue, and that the MEGA package would provide a \$5,303,000 incentive to DaimlerChrysler. Thus, the DaimlerChrysler Sterling Heights retention would increase state government revenues in 2010 by \$131,725,000, net of MEGA incentive costs.

Over the period 2006 to 2010, gross state government revenue is projected to increase by \$651,028,000 (in current dollars) due to the retention of the DaimlerChrysler facilities in Sterling Heights. The MEGA incentive package for DaimlerChrysler is forecast to cost \$24,317,000 over the period, resulting in a net increase in state government revenue of \$626,711,000. Adjusted for inflation, the total net increase in state government revenue from 2006 to 2010 would be \$486,859,000 in 2005 dollars.

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 DaimlerChrysler Corporation Facility Retention  
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2006	2007	2008	2009	2010	Total 2006-2010
Total Employment	25,537	24,255	22,867	21,611	20,782	—
Manufacturing	9,353	8,890	8,568	8,272	8,073	—
Nonmanufacturing	16,184	15,365	14,299	13,339	12,709	—
Retail trade	3,670	3,407	3,167	2,940	2,778	—
Services	6,073	5,437	4,852	4,368	4,057	—
Other	6,441	6,521	6,280	6,031	5,874	—
In current dollars (thousands):						
Personal income	1,542,000	1,668,700	1,722,300	1,751,000	1,781,900	8,465,900
Gross state revenue	118,580	128,323	132,445	134,652	137,028	651,028
MEGA cost	4,582	4,306	4,986	5,141	5,303	24,317
State revenue net of MEGA cost*	113,998	124,017	127,459	129,511	131,725	626,711
Adjusted for inflation (thousands of 2004 dollars):						
Personal income	1,288,738	1,328,352	1,325,154	1,316,586	1,317,747	6,576,577
Gross state revenue	99,104	102,150	101,905	101,245	101,335	505,739
MEGA cost	3,829	3,427	3,836	3,865	3,922	18,880
State revenue net of MEGA cost*	95,275	98,723	98,069	97,380	97,413	486,859

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