

**The Economic Effects on Michigan
of the Kwang Jin Sang Gong Co., Ltd. Facility Location Decision**

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Abstract

Kwang Jin Sang Gong Co., Ltd. is considering locating a production plant in Battle Creek, Michigan that would produce window regulators for the auto industry. By the year 2000, the facility would employ 199 people. We estimate that by 2009, this location will have generated a total of 683 jobs in the state. Total state government revenues through 2009, net of MEGA costs and adjusted for inflation, would be increased by \$18,099,000 (1996 dollars) due to the location of Kwang Jin Sang Gong Co., Ltd.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Kwang Jin Sang Gong Co., Ltd.'s locating a production plant in Battle Creek, Michigan that would produce window regulators for the auto industry (SIC 3714). Construction activity would take place between 1997 and 1999, with an investment of \$8.716 million, and operations would begin in October 1997. The facility would employ 199 workers by 2000.

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 1997 to 2009, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 1998-2003 and a tax credit to the company for the period 1998-2009 equal to 4.4 percent of the payroll (gross wages) of employees hired at the facility as a result of the project. The payroll tax credit represents 100 percent of the maximum employment credit available to a company.

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 of the facility is expected to generate a total of 46 jobs in 1997, 15 jobs in 1998, and 6 jobs in 1999; almost all of these jobs are temporary. In 2000, the year that full operations begin, an additional 615 jobs are generated in the state. We estimate that by 2009 this facility will have generated a total of 683 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 3.2 over the period 2000-2009. 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 Kwang Jin Sang Gong Co., Ltd. were to locate in Michigan under the incentive program, state personal income in the year 2000 would be higher by \$29.4 million (in current dollars) than it would be without the facility, and in 2009 it would be \$47.5 million higher. Adjusted for inflation, these numbers in 1996 dollars would be \$21 million in 2000 and \$28.8 million in 2009.

The gain in economic activity results in higher state government revenues. We estimate that in 2000, the year that full operations begin, the facility would generate \$2,352,000 in additional gross state government revenue, and that the MEGA package would provide a \$615,000 incentive to Kwang Jin Sang Gong Co., Ltd. Thus, the Kwang Jin Sang Gong Co., Ltd. facility would generate an additional \$1,737,000 in revenue to state government in 2000, net of MEGA incentive costs.

Over the period 1997-2009, gross state government revenue is projected to increase by \$34,096,000 (in current dollars) due to the location of Kwang Jin Sang Gong Co., Ltd. The MEGA incentive package for Kwang Jin Sang Gong Co., Ltd. is forecast to cost \$5,456,000 over the period, resulting in a net increase in state government revenue of \$28,640,000. Adjusted for inflation, the total net increase in state government revenue from 1997 to 2009 would be \$18,099,000 in 1996 dollars. These calculations do not include any revenue losses due to the property tax abatement. If the cost of the abatement 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 Kwang Jin Sang Gong Co., Ltd. Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1997	1998	1999	2000	2005	2009	Total 1997-2009
Total Employment	121	296	594	615	634	683	—
Manufacturing	24	117	247	242	224	224	—
Nonmanufacturing	97	179	347	373	410	459	—
Retail Trade	16	39	77	81	81	89	—
Services	34	76	146	153	160	184	—
Other	47	64	124	139	169	186	—
In current dollars (thousands):							
Personal income	4,600	12,000	25,500	29,400	39,400	47,500	426,200
Gross state revenue	368	960	2,040	2,352	3,152	3,800	34,096
MEGA cost	0	151	546	615	344	396	5,456
State revenue net of MEGA cost	368	809	1,494	1,737	2,808	3,404	28,640
Adjusted for inflation (thousands of 1996 dollars):							
Personal income	3,953	9,640	19,765	21,038	25,453	28,784	282,376
Gross state revenue	316	771	1,581	1,683	2,036	2,303	22,590
MEGA cost	0	143	502	550	269	277	4,491
State revenue net of MEGA cost	316	628	1,079	1,133	1,767	2,026	18,099

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