

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

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Abstract

Kmart Corporation is considering building a new facility adjacent to its existing headquarters in Troy, Michigan, and adding extensive data processing capacity to accommodate new computer technology. The new facility would employ 425 people by 2001. We estimate that by 2019, this expansion will have generated a total of 717 jobs in the state. Total state government revenues through 2019, net of MEGA costs and adjusted for inflation, would increase by \$35,823,000 (1998 dollars) due to the expansion of Kmart Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Kmart Corporation's building a new facility adjacent to its existing headquarters in Troy, Michigan, and adding extensive data processing capacity to accommodate new computer technology (SIC 5300). Investment activity would take place between 1999 and 2000, with an investment of \$102.41 million, and production would begin in 2000. The new facility would employ 425 people by 2001.

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 1999 to 2019, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2000 to 2019 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 the 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 241 jobs in 1999 and 374 jobs in 2000; almost all of these jobs are temporary. In 2001, the first year of full operations, an additional 696 jobs are generated in the state. We estimate that by 2019 this facility will have generated a total of 717 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 1.5 over the period 2001-2019. 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 Kmart Corporation were to expand in Michigan under the incentive program, state personal income in 2001 would be higher by \$36.8 million (in current dollars) than it would be without the facility, and in 2019 it would be \$76.8 million higher. Adjusted for inflation, these numbers in 1998 dollars would be \$27.3 million in 2001 and \$37.3 million in 2019.

The gain in economic activity results in higher state government revenues. We estimate that in 2001, the first year of full operations, the facility would generate \$2,944,000 in additional gross state government revenue, and that the MEGA package would provide a \$908,000 incentive to Kmart Corporation. Thus, the Kmart Corporation facility expansion would increase state government revenues in 2001 by \$2,036,000, net of MEGA incentive costs.

Over the period 1999-2019, gross state government revenue is projected to increase by \$83,992,000 (in current dollars) due to the expansion of Kmart Corporation. The MEGA incentive package for Kmart Corporation is forecast to cost \$24,137,000 over the period, resulting in a net increase in state government revenue of \$59,855,000. Adjusted for inflation, the total net increase in state government revenue from 1999 to 2019 would be \$35,823,000 in 1998 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 expansion and location decisions.

**Economic and Fiscal Effects on Michigan of the Kmart Corporation Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	1999	2000	2001	2002	2005	2010	2015	2019	Total 1999-2019
Total Employment	241	726	696	668	619	630	676	717	—
Manufacturing	7	93	0	0	0	0	0	0	—
Nonmanufacturing	234	633	696	668	619	630	676	717	—
Retail Trade	28	320	511	504	488	485	489	494	—
Services	39	157	112	101	83	89	113	136	—
Other	167	156	73	63	48	56	74	87	—
In current dollars (thousands):									
Personal income	9,500	34,000	36,800	38,300	41,800	50,500	63,500	76,800	1,049,900
Gross state revenue	760	2,720	2,944	3,064	3,344	4,040	5,080	6,144	83,992
MEGA cost	0	400	908	935	1,029	1,224	1,456	1,691	24,137
State revenue net of MEGA cost*	760	2,320	2,036	2,129	2,315	2,816	3,624	4,453	59,855
Adjusted for inflation (thousands of 1998 dollars):									
Personal income	7,506	27,035	27,297	27,572	27,918	30,520	34,192	37,276	627,353
Gross state revenue	600	2,163	2,184	2,206	2,233	2,441	2,735	2,982	50,189
MEGA cost	0	318	674	673	687	739	784	821	14,366
State revenue net of MEGA cost*	600	1,845	1,510	1,533	1,546	1,702	1,951	2,161	35,823