



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: May 18, 2004
TO: Michigan Economic Growth Authority
FROM: James Donaldson, Vice President
Michigan Business Development
SUBJECT: Briefing Memo – Kellogg North America Company
Standard Credit

COMPANY NAME AND ADDRESS:

Kellogg North America Company
One Kellogg Square
Battle Creek, Michigan 49016

HISTORY OF COMPANY:

Kellogg North America Company, established in January 2004, is a newly formed subsidiary of Kellogg Company, the world's leading producer of cereal and a leading producer of convenience foods, including cookies, crackers, toaster pastries, cereal bars, frozen waffles and meat alternatives. The company's products are marketed in more than 180 countries around the world under the brand names Kellogg's, Keebler, Pop-Tarts, Eggo, Cheez-It, Nutri-Grain, Rice Krispies and Morningstar Farms. Currently, the Kellogg Company has more than 2,200 employees in Michigan.

PROJECT DESCRIPTION:

The project involves the relocation of the Kellogg Snack Division (formerly Keebler) from Elmhurst, Illinois to Battle Creek. Relocating the Snacks Division to Battle Creek where Kellogg's world headquarters is located will enhance the company's synergies for further sales, development and marketing of Kellogg's products from Michigan. The relocation would include up to 300 full time associates who would locate within current Kellogg facilities in Battle Creek. The jobs will have an average weekly wage of \$1,308.

The project would require a capital investment of \$3.2 million, including \$500,000 for building improvements and \$2.7 million for new computers and office furnishings. In addition, the company will have substantial relocation costs.



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BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate that this facility will create a total of 538 jobs in the state by the year 2008. We also estimate that the project would create total state government revenues through the year 2008, net of MEGA cost and adjusted for inflation, of \$9.6 million (2004 dollars) due to the location of this facility.

BUT FOR:

Kellogg's alternative to move the Snacks Division is to remain in Illinois. The State of Illinois has proposed incentives to Kellogg's to maintain the company in Illinois. In addition, the company would not have to pay for the significant relocation costs which could be generated from this project. The company estimates it could cost \$19.8 million to move the Snacks Division, including moving costs, severance packages, relocation costs, and recruiting costs.

OTHER STATE AND LOCAL ASSISTANCE:

The City of Battle Creek and the Michigan Economic Development Corporation support the creation of a 5-year Agricultural Renaissance Zone for this project. The company would receive two full years of Renaissance Zone benefits and would make a payment-in-lieu-of-taxes to refund the benefits in years three, four and five. The estimated value of the zone is \$16,358,900. Final approval for this zone should be completed by the City of Battle Creek on June 1, 2004.

The City of Battle Creek has also proposed 50 percent abatement of the company's new real and personal property for 12 years. The estimated value of the local property tax abatement is \$985,100. The abatement is expected to be finalized by July 6, 2004.

In addition, Battle Creek Unlimited (BCU) will pool local resources, including the City of Battle Creek, the Tax Increment Finance Authority, the BCU loan fund and Battle Creek Unlimited, to provide a \$7 million, 0% loan for 25 months. The total value of this incentive is estimated at \$578,000.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a 100 percent employment tax credit for five years, for up to 300 net new employees.