

**The Economic Effects on Michigan of
the Kellogg North America Company Facility Expansion Decision**

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May 18, 2004

Abstract

Kellogg North America Company is considering the relocation of its headquarters from Illinois to Battle Creek, Michigan, an expansion of existing operations that would use existing space. The facility would employ an additional 300 people by 2005. We estimate that by 2008, this expansion will have generated a total of 538 jobs in the state. Total state government revenues through 2008, net of MEGA costs and adjusted for inflation, would increase by \$9,644,000 (2004 dollars) due to the expansion of Kellogg North America Company.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if Kellogg North America Company relocates its headquarters from Illinois to Battle Creek, Michigan (SIC 7389), an expansion of existing operations that would use existing space. Investment activity would take place in 2004, with an investment of \$3.2 million. The facility would employ an additional 300 people by 2005.

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 2004 to 2008, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2004 to 2008 equal to 100 percent of the state income tax rate on the payroll (gross wages) of employees hired at the facility as a result of the project.

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 investment activity is expected to generate a total of 17 jobs in 2004; almost all of these jobs are temporary. In 2005, the first year of full operations, an additional 631 jobs are generated in the state. We estimate that by 2008, this expansion will have generated a total of 538 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 1.9 over the period 2005 to 2008. 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 Kellogg North America Company were to expand its operations in Michigan under the incentive program, state personal income in 2005 would be higher by \$42.2 million (in

current dollars) than it would be without the expansion, and in 2008 it would be \$48.8 million higher. Adjusted for inflation, these numbers in 2004 dollars would be \$37.5 million in 2005 and \$38.8 million in 2008.

The gain in economic activity results in higher state government revenues. We estimate that in 2005, the first year of full operations, the expanded facility would generate \$3,245,000 in additional gross state government revenue, and that the MEGA package would provide a \$973,000 incentive to Kellogg North America Company. Thus, the Kellogg North America Company expansion would increase state government revenues in 2005 by \$2,272,000, net of MEGA incentive costs.

Over the period 2004 to 2008, gross state government revenue is projected to increase by \$15,726,000 (in current dollars) due to the expansion of Kellogg North America Company. The MEGA incentive package for Kellogg North America Company is forecast to cost \$4,368,000 over the period, resulting in a net increase in state government revenue of \$11,358,000. Adjusted for inflation, the total net increase in state government revenue from 2004 to 2008 would be \$9,644,000 in 2004 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 Kellogg North America Company Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2004	2005	2006	2007	2008	Total 2004-2008
Total Employment	347	631	599	565	538	—
Manufacturing	6	4	0	0	0	—
Nonmanufacturing	341	627	599	565	538	—
Retail Trade	55	100	94	89	84	—
Services	230	444	427	411	398	—
Other	56	83	78	65	56	—
In current dollars (thousands):						
Personal income	20,800	42,200	45,400	47,300	48,800	204,500
Gross state revenue	1,600	3,245	3,491	3,637	3,753	15,726
MEGA cost	468	973	975	976	977	4,368
State revenue net of MEGA cost*	1,132	2,272	2,516	2,661	2,776	11,358
Adjusted for inflation (thousands of 2004 dollars):						
Personal income	20,800	37,475	38,331	38,412	38,816	173,833
Gross state revenue	1,600	2,882	2,948	2,954	2,985	13,368
MEGA cost	468	864	823	792	777	3,724
State revenue net of MEGA cost*	1,132	2,018	2,125	2,162	2,208	9,644

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