



John Engler, Governor

Doug Rothwell, Chief Executive Officer

MEMORANDUM

DATE: May 12, 1998
TO: Michigan Economic Growth Authority
FROM: Jim Donaldson, Director, Michigan Business Development
SUBJECT: Briefing Memo - Kmart Corporation

COMPANY NAME:

Kmart Corporation
3100 West Big Beaver Road
Troy, Michigan 48084

HISTORY OF COMPANY:

Kmart is a Michigan-based discount retailer that grew out of the old Kresge chain and has diversified into broader markets than the traditional "five and dime" - including automotive, fashion and other areas. The company went through difficult times in the past and has recently refocused on its core business by selling other portions of its business, such as Borders Group, OfficeMax, the Sports Authority, and Builders Square. The company has repositioned itself in the marketplace and now operates more than 2,100 retail outlets in the United States, Puerto Rico, the U. S. Virgin Islands and Guam. Kmart is once again a strong presence in retail merchandising.

PROJECT DESCRIPTION:

Kmart must move and expand its data processing department. The department is currently in the basement of the Kmart headquarters in Troy and cannot expand within that facility. The project will affect 300 existing jobs in Michigan and will expand the workforce by 425. The company is also considering a location in Kentucky. Investment for this project will be approximately \$108.7 million. Of this amount, \$13.9 million is for the building, \$86.5 million for equipment and the rest for land and relocation costs. The company expects to reinvest about \$80 million in computer equipment every three years. The 425 jobs created will pay an average weekly wage of \$855 with a benefit package of 29 percent of wages.

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BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 717 jobs in the state by the year 2019. Total state government revenues through the year 2019, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$35,823,000 (1998 dollars) due to the presence of the Kmart facility. The project would also retain 300 existing employees in Troy who would otherwise be moved to Kentucky.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Lexington, Kentucky, and Troy, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Kmart to establish its data center in Troy rather than Lexington ranges from approximately \$2 million to \$2.5 million over the life of the incentive. The cost differential is primarily attributable to property tax costs and incentives offered by Kentucky. Kmart is not eligible for property tax abatements in Michigan, however, Kentucky can eliminate property tax costs, for up to 20 years, with credits toward payment of a taxable bond to finance the project. Also, under the Kentucky Job Development Authority, up to 50 percent of business tax liability can be rebated for a period of 10 years. Michigan Jobs Commission staff has examined these numbers and believes they are a fair representation of the cost differential between Michigan and Kentucky.

OTHER STATE AND LOCAL ASSISTANCE:

The Michigan Jobs Commission has offered Economic Development Job training assistance for up to \$700 per job for a maximum of 425 new jobs, for a total commitment of \$297,500.

The City of Troy will assist with permitting costs, construction of parking, landscaping, and will also work with Kmart to investigate lowering property tax assessments of existing machinery and equipment at the company's Troy facility.

BUT FOR:

The company must move the data processing facility. Kentucky has offered almost \$23 million in incentives to relocate 300 data processing jobs and also entice Kmart to locate the 425 new jobs.

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RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 425 net new jobs.