

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

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Abstract

Stryke Corporation, is considering expanding its corporate headquarters in Kalamazoo, Michigan, to include construction of a 75,000-sq.-ft. building. The facility would employ an additional 100 people by 2014. We estimate that by 2025, this expansion will have generated a total of 165 jobs in the state. Total state government revenues through 2025, net of MEGA costs and adjusted for inflation, would increase by \$15,734,000 (2005 dollars) due to the expansion of Stryker, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan if Stryker Corporation expands its corporate headquarters in Kalamazoo, Michigan, including construction of a 75,000-sq.-ft. building (SIC 3841). Investment activity would take place between 2005 and 2007, with an investment of \$21.4 million. The facility would employ an additional 100 people by 2014.

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 2005 to 2025, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2006 to 2025 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 121 jobs in 2005 and 128 jobs in 2006; almost all of these jobs are temporary. In 2014, the first year of full operations, an additional 180 jobs are generated in the state. We estimate that by 2025, this expansion will have generated a total of 165 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 1.7 over the period 2014 to 2025. 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 Stryker, Inc., were to expand its operations in Michigan under the incentive program, state personal income in 2014 would be higher by \$21 million (in current dollars) than it would

be without the expansion, and in 2025 it would be \$30.1 million higher. Adjusted for inflation, these numbers in 2005 dollars would be \$15.4 million in 2014 and \$17.8 million in 2025.

The gain in economic activity results in higher state government revenues. We estimate that in 2014, the first year of full operations, the expanded facility would generate \$1,615,000 in additional gross state government revenue, and that the MEGA package would provide a \$402,000 incentive to Stryker, Inc. Thus, the Stryker Corporation expansion would increase state government revenues in 2014 by \$1,213,000, net of MEGA incentive costs.

Over the period 2005 to 2025, gross state government revenue is projected to increase by \$30,768,000 (in current dollars) due to the expansion of Stryker Corporation. The MEGA incentive package for Stryker, Inc., is forecast to cost \$8,442,000 over the period, resulting in a net increase in state government revenue of \$22,326,000. Adjusted for inflation, the total net increase in state government revenue from 2005 to 2025 would be \$15,734,000 in 2005 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 Stryker, Inc., Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2020	2025	Total 2005-2025
Total employment	121	152	61	78	96	115	133	153	170	180	174	164	165	—
Manufacturing	3	15	33	43	53	63	73	83	93	100	100	100	100	—
Nonmanufacturing	118	137	28	35	43	52	60	70	77	80	74	64	65	—
Retail trade	13	18	10	12	15	18	21	25	27	29	28	26	27	—
Services	20	26	11	14	19	22	25	29	32	32	30	24	25	—
Other	85	93	7	9	9	12	14	16	18	19	16	14	13	—
In current dollars (thousands):														
Personal income	5,800	8,800	6,000	7,400	9,300	11,400	13,700	16,300	18,900	21,000	21,700	25,300	30,100	400,100
Gross state revenue	446	677	461	569	715	877	1,054	1,253	1,453	1,615	1,669	1,946	2,315	30,768
MEGA cost	0	74	114	153	195	251	292	332	373	402	422	554	760	8,442
State revenue net of MEGA cost*	446	603	347	416	520	626	762	921	1,080	1,213	1,247	1,392	1,555	22,326
Adjusted for inflation (thousands of 2005 dollars):														
Personal income	5,800	7,843	5,516	6,707	8,041	9,721	10,998	12,689	14,282	15,385	15,565	16,522	17,848	280,164
Gross state revenue	446	603	424	516	618	748	846	976	1,098	1,183	1,197	1,271	1,373	21,545
MEGA cost	0	66	104	139	168	214	234	259	282	294	303	362	451	5,811
State revenue net of MEGA cost*	446	537	320	377	450	534	612	717	816	889	894	909	922	15,734

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