

**The Economic Effects on Michigan of the
Target Corporation Facility Location Decision**

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Abstract

Target Corporation is considering building a distribution center in Michigan to support its retail operations in the upper Midwest. The new facility would employ an additional 800 people by 2004. We estimate that by 2010, this location will have generated a total of 1,518 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would increase by \$43,951,000 (2000 dollars) due to the location of Target Corporation.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Target Corporation building a distribution center in Michigan to support its retail operations in the upper Midwest (SIC 5084). Investment activity would take place between 2000 and 2001, with an investment of \$88.9 million. The facility would employ an additional 800 people by 2004.

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 2000 to 2010, are shown in the attached table. The MEGA incentive package includes a tax credit to the company 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 for the period 2002 to 2003, and equal to 50 percent for the period 2004 to 2010.

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 activity is expected to generate a total of 272 jobs in 2000 and 757 jobs in 2001; almost all of these jobs are temporary. In 2004, the first year of full operations, an additional 1,694 jobs are generated in the state. We estimate that by 2010, this location will have generated a total of 1,518 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 location averages 1.97 over the period 2004 to 2010. 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 Target Corporation were to locate the proposed distribution center in Michigan under

the incentive program, state personal income in 2004 would be higher by \$88.5 million (in current dollars) than it would be without the facility, and in 2010 it would be \$106.3 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$66 million in 2004 and \$71.6 million in 2010.

The gain in economic activity results in higher state government revenues. We estimate that in 2004, the first year of full operations, the facility would generate \$7,080,000 in additional gross state government revenue, and that the MEGA package would provide a \$645,000 incentive to Target Corporation. Thus, the Target Corporation facility location would increase state government revenues in 2004 by \$6,435,000, net of MEGA incentive costs.

Over the period 2000 to 2010, gross state government revenue is projected to increase by \$67,200,000 (in current dollars) due to the location of the proposed Target Corporation distribution center. The MEGA incentive package for Target Corporation is forecast to cost \$6,307,000 over the period, resulting in a net increase in state government revenue of \$60,893,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2010 would be \$43,951,000 in 2000 dollars. These calculations do not include any revenue losses due to the investment tax credit. If the costs of the tax credit were included, the net revenue gain to state government would be slightly less.

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 Target Corporation Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2004	2005	2010	Total 2000-2010
Total Employment	272	757	969	1,333	1,694	1,639	1,518	—
Manufacturing	7	48	6	2	0	0	0	—
Nonmanufacturing	265	709	963	1,331	1,694	1,639	1,518	—
Retail Trade	29	82	114	154	192	178	145	—
Wholesale Trade	5	47	475	658	841	836	822	—
Services	41	142	230	314	398	377	333	—
Other	190	438	144	205	263	248	218	—
In current dollars (thousands):								
Personal income	11,100	34,000	46,600	66,500	88,500	92,300	106,300	840,000
Gross state revenue	888	2,720	3,728	5,320	7,080	7,384	8,504	67,200
MEGA cost	0	0	555	837	645	668	771	6,307
State revenue net of MEGA cost*	888	2,720	3,173	4,483	6,435	6,716	7,733	60,893
Adjusted for inflation (thousands of 2000 dollars):								
Personal income	11,100	28,280	36,950	51,185	66,024	66,888	71,644	606,057
Gross state revenue	888	2,262	2,956	4,095	5,282	5,351	5,732	48,485
MEGA cost	0	0	440	644	481	484	520	4,534
State revenue net of MEGA cost*	888	2,262	2,516	3,451	4,801	4,867	5,212	43,951

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