

**The Economic Effects on Michigan
of the Walden Book Company Headquarters Location Decision**

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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 the headquarters were to locate in Michigan under the incentive program, state personal income in 1996 would be higher by \$35 million (in current dollars) than it would be without the headquarters, and in 2010 it would be \$145.5 million higher. Adjusted for inflation, these numbers in 1995 dollars would be \$30.6 million in 1996 and \$49.4 million in 2010.

The gain in economic activity results in higher state government revenues. We estimate that in 1996, which is the first full year of operation, the additional economic activity resulting from the operation of the headquarters would generate \$2,800,000 in additional state government revenue, and that the MEGA package would provide a \$741,000 incentive to Walden Book Company. Thus, the Walden Book headquarters would generate an additional \$2,059,000 in revenue to state government in 1996, net of MEGA incentive costs.

Over the period 1995-2010, gross state government revenue is projected to increase by \$99,896,000 due to the presence of the Walden Book headquarters. The MEGA incentive package for Walden Book Company is forecast to cost \$17,621,000 over the period, resulting in a net increase in state government revenue of \$82,275,000. Adjusted for inflation, the total net increase in state government revenue from 1995 to 2010 would be \$42,311,000 in 1995 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.

Abstract

The Walden Book Company is considering locating its retail book headquarters in Michigan, which by 1997 would employ 550 people. By 2010, we estimate that this facility will have generated a total of 975 jobs in the state. Total state government revenues through 2010, net of MEGA costs and adjusted for inflation, would be increased by \$42,311,000 (1995 dollars) due to the presence of the Walden Book headquarters.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of the Walden Book Company's locating its retail book headquarters (SIC 5942) in the state. The new facility would be built in 1995, with an investment of \$12 million, and would begin operation in July 1995. The headquarters would employ 550 workers by 1997.

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 1995 to 2010, are shown in the attached table. The MEGA incentive package offered to the Walden Book Company includes a tax credit to the company equal to a percentage of the income tax withheld from the company's employees--80 percent in the first five years, 25 percent in the second five years, and 80 percent in the final five years.

The total employment effects, reported in the first line of the table, include the direct jobs created at the headquarters 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. In 1995, we forecast that a total of 465 jobs will be generated, 125 of them attributable to construction activity. Almost all of the construction jobs are temporary. In the first full year of operation, 1996, an additional 806 jobs are generated in the state. By 2010, we estimate that this facility will have generated a total of 975 jobs in the state. Sectoral detail on the employment gains is also shown in the table.

Economic and Fiscal Effects on Michigan of the Walden Book Company Headquarters

Net Benefits with the Incentive Package

Economic/Fiscal Indicator	1995	1996	1997	1998	1999	2000	2005	2010	Total 1995-2010
Total employment	465	806	920	915	907	901	904	975	—
Retail trade	259	569	655	652	649	646	639	650	—
Services	86	144	161	155	149	144	145	172	—
Personal income:									
Thousands of current \$	17,700	35,000	44,900	49,800	54,300	59,000	90,800	145,500	1,248,700
Thousands of 1995 \$	17,700	30,568	36,754	37,728	39,457	40,869	44,422	49,394	654,122
State revenue:									
Gross (thousands of current \$)	1,416	2,800	3,592	3,984	4,344	4,720	7,264	11,640	99,896
MEGA cost (thousands of current \$)	299	741	914	975	1,044	736	1,137	1,342	17,621
Net of MEGA cost (thousands of current \$)	1,117	2,059	2,678	3,009	3,300	3,984	6,127	10,298	82,275
Net of MEGA cost (thousands of 1995 \$)	1,117	1,731	2,101	2,168	2,297	2,699	2,957	3,480	42,311