

**The Economic Effects on Michigan of
the BorgWarner, Inc. Facility Location Decision**

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Abstract

BorgWarner, Inc. is considering relocating its headquarters from Chicago, Illinois to space in a newly built 60,000 square foot facility in Auburn Hills, Michigan. The facility would employ an additional 90 people by 2009. We estimate that by 2015, this location will have generated a total of 146 jobs in the state. Total state government revenues through 2015, net of MEGA costs and adjusted for inflation, would increase by \$7,286,000 (2003 dollars) due to the location of BorgWarner, Inc.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of BorgWarner, Inc. relocating its headquarters from Chicago, Illinois to space in a newly built 60,000 square foot facility in Auburn Hills, Michigan (SIC 3714). Investment activity would take place between 2004 and 2006, with an investment of \$8.9 million. The facility would employ an additional 90 people by 2009.

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 2015, are shown in the attached table. The MEGA incentive package includes a tax credit to the company for the period 2006 to 2015 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 117 jobs in 2004 and 5 jobs in 2006; almost all of these jobs are temporary. In 2009, the first year of full operations, an additional 170 jobs are generated in the state. We estimate that by 2015, this location will have generated a total of 146 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 1.7 over the period 2009 to 2015. 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 BorgWarner, Inc. were to locate its operations in Michigan under the incentive program, state personal income in 2009 would be higher by \$17.1 million (in current dollars)

than it would be without the location, and in 2015 it would be \$19.8 million higher. Adjusted for inflation, these numbers in 2003 dollars would be \$11.9 million in 2009 and \$12.6 million in 2015.

The gain in economic activity results in higher state government revenues. We estimate that in 2009, the first year of full operations, the new facility would generate \$1,315,000 in additional gross state government revenue, and that the MEGA package would provide a \$354,000 incentive to BorgWarner, Inc. Thus, the BorgWarner, Inc. location would increase state government revenues in 2009 by \$961,000, net of MEGA incentive costs.

Over the period 2004 to 2015, gross state government revenue is projected to increase by \$14,349,000 (in current dollars) due to the location of BorgWarner, Inc. The MEGA incentive package for BorgWarner, Inc. is forecast to cost \$3,834,000 over the period, resulting in a net increase in state government revenue of \$10,515,000. Adjusted for inflation, the total net increase in state government revenue from 2004 to 2015 would be \$7,286,000 in 2003 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 BorgWarner, Inc. Facility Location
Net Benefits with the Incentive Package**

| Economic/Fiscal Indicator | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2015 | Total 2004-2015 |
|--|-------|-------|--------|--------|--------|--------|--------|--------|--------------------|
| Total Employment | 117 | 103 | 186 | 168 | 168 | 170 | 163 | 146 | — |
| Manufacturing | 3 | 45 | 80 | 82 | 85 | 90 | 90 | 90 | — |
| Nonmanufacturing | 114 | 58 | 106 | 86 | 83 | 80 | 73 | 56 | — |
| Retail Trade | 12 | 17 | 31 | 28 | 28 | 28 | 27 | 25 | — |
| Services | 19 | 23 | 41 | 35 | 34 | 33 | 29 | 22 | — |
| Other | 83 | 18 | 34 | 23 | 21 | 19 | 17 | 9 | — |
| In current dollars (thousands): | | | | | | | | | |
| Personal income | 5,400 | 7,700 | 14,200 | 14,700 | 15,700 | 17,100 | 17,500 | 19,800 | 186,600 |
| Gross state revenue | 415 | 592 | 1,092 | 1,131 | 1,207 | 1,315 | 1,346 | 1,523 | 14,349 |
| MEGA cost | 0 | 0 | 295 | 332 | 342 | 354 | 369 | 474 | 3,834 |
| State revenue net of MEGA cost* | 415 | 592 | 797 | 799 | 865 | 961 | 977 | 1,049 | 10,515 |
| Adjusted for inflation (thousands of 2003 dollars): | | | | | | | | | |
| Personal income | 4,280 | 5,856 | 10,730 | 10,877 | 11,212 | 11,858 | 12,090 | 12,634 | 128,784 |
| Gross state revenue | 329 | 450 | 825 | 837 | 862 | 912 | 930 | 971 | 9,904 |
| MEGA cost | 0 | 0 | 223 | 246 | 244 | 245 | 255 | 302 | 2,618 |
| State revenue net of MEGA cost* | 329 | 450 | 602 | 591 | 618 | 667 | 675 | 669 | 7,286 |

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