

**The Economic Effects on Michigan of the
Delphi Automotive Systems LLC Facility Expansion Decision**

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Abstract

Delphi Automotive Systems LLC is considering constructing two office buildings totaling approximately 240,000 square feet in Troy, Michigan, to enable the expansion and consolidation of its corporate staff and divisional headquarters. The expanded facility would employ an additional 600 people by 2003. We estimate that by 2014, this expansion will have generated a total of 1,646 jobs in the state. Total state government revenues through 2014, net of MEGA costs and adjusted for inflation, would increase by \$82,161,000 (2000 dollars) due to the expansion of Delphi Automotive Systems LLC.

The purpose of this study is to estimate the potential economic and fiscal benefits to Michigan of Delphi Automotive Systems LLC constructing two office buildings totaling approximately 240,000 square feet in Troy, Michigan, to enable the expansion and consolidation of its corporate staff and divisional headquarters (SIC 3711). Investment activity would take place between 2000 and 2001, with an investment of \$51.8 million. The facility would employ an additional 600 people and be at full production by 2003.

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 2014, are shown in the attached table. The MEGA incentive package includes relief from 100 percent of the single business tax for the period 2000 to 2014; it also includes a tax credit to the company for the same period 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 construction activity is expected to generate a total of 270 jobs in 2000 and 425 jobs in 2001; almost all of these jobs are temporary. In 2003, the first year of full operations, an additional 1,589 jobs are generated in the state. We estimate that by 2014, this expansion will have generated a total of 1,646 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 2.6 over the period 2003 to 2014. 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 Delphi Automotive Systems LLC were to expand in Michigan under the incentive program, state personal income in 2003 would be higher by \$109.3 million (in current dollars) than it would be without the facility, and in 2014 it would be \$177.4 million higher. Adjusted for inflation, these numbers in 2000 dollars would be \$89 million in 2003 and \$111.1 million in 2014.

The gain in economic activity results in higher state government revenues. We estimate that in 2003, the first year of full operations, the facility would generate \$8,744,000 in additional gross state government revenue, and that the MEGA package would provide a \$2,109,000 incentive to Delphi Automotive Systems LLC. Thus, the Delphi Automotive Systems LLC facility expansion would increase state government revenues in 2003 by \$6,635,000, net of MEGA incentive costs.

Over the period 2000 to 2014, gross state government revenue is projected to increase by \$147,256,000 (in current dollars) due to the expansion of Delphi Automotive Systems LLC. The MEGA incentive package for Delphi Automotive Systems LLC is forecast to cost \$32,823,000 over the period, resulting in a net increase in state government revenue of \$114,433,000. Adjusted for inflation, the total net increase in state government revenue from 2000 to 2014 would be \$82,161,000 in 2000 dollars. These calculations do not include any revenue losses due to the property tax abatement or the investment tax credit. If the costs of the abatement and 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 Delphi Automotive Systems LLC Facility Expansion
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2000	2001	2002	2003	2005	2010	2014	Total 2000-2014
Total Employment	459	1,281	981	1,589	1,527	1,523	1,646	—
Manufacturing	105	411	461	732	707	692	705	—
Nonmanufacturing	354	870	520	857	820	831	941	—
Retail Trade	62	182	149	238	218	205	218	—
Services	85	243	181	299	271	277	339	—
Other	207	445	190	320	331	349	384	—
In current dollars (thousands):								
Personal income	22,000	70,000	67,500	109,300	121,000	146,900	177,400	1,840,700
Gross state revenue	1,760	5,600	5,400	8,744	9,680	11,752	14,192	147,256
MEGA cost	1,005	1,335	2,095	2,109	2,181	2,431	2,725	32,823
State revenue net of MEGA cost*	755	4,265	3,305	6,635	7,499	9,321	11,467	114,433
Adjusted for inflation (thousands of 2000 dollars):								
Personal income	22,000	61,129	56,589	88,954	92,286	100,834	111,091	1,328,163
Gross state revenue	1,760	4,890	4,527	7,116	7,383	8,067	8,887	106,253
MEGA cost	1,005	1,166	1,757	1,716	1,663	1,669	1,707	24,092
State revenue net of MEGA cost*	755	3,724	2,770	5,400	5,720	6,398	7,180	82,161

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