



MEMORANDUM

DATE: August 21, 2000

TO: Michigan Economic Growth Authority

FROM: James Donaldson, Vice President
Michigan Business Development *for JD*

SUBJECT: Briefing Memo – BorgWarner Cooling Systems of Michigan, Inc.

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COMPANY NAME AND ADDRESS:

BorgWarner Cooling Systems of Michigan, Inc.
19218 B Drive South
Marshall, Michigan 49068

HISTORY OF COMPANY:

BorgWarner Cooling Systems of Michigan, Inc. will be a single purpose LLC created to establish a research and development subsidiary of BorgWarner Cooling Systems, Inc. which is itself a subsidiary of BorgWarner, Inc., a global supplier to the automotive industry. BorgWarner Cooling Systems was created in 1999 from the acquisition of the Fluid Power Division of Eaton Corporation and the cooling business of Kuhlman Corporation. The company is a global leader in the design and supply of cooling system fan clutches and fans primarily for the sport-utility, light truck and commercial vehicle markets. BorgWarner Cooling Systems, Inc. currently has 244 employees in Michigan. The company would transfer 54 current research and development employees to the newly created subsidiary.

DESCRIPTION OF PROJECT:

BorgWarner Cooling Systems of Michigan wants to build a new high-technology research and development facility in Marshall, Michigan to house all U.S. based research, product and applications engineers and technicians. The new facility will develop highly engineered engine cooling system solutions for improved engine temperature management. The project would include the transfer of approximately 35 technical personnel from BorgWarner's Indianapolis Technical Center.

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The company would have a capital investment of \$7.7 million, including \$6.7 million in land and buildings and \$1 million in machinery and equipment. Construction of the new facility would begin in September of 2000 with full operations beginning in August of 2001.

The company anticipates having 7 new employees by the end of 2000 and up to 59 new employees by the end of 2004. Average weekly wages would be \$1,348 and the company would offer a benefit package approximating 26 percent of wages.

BENEFIT TO THE STATE:

According to the economic analysis done by the Michigan Economic Development Corporation using REMI software, we estimate this facility will generate a total of 180 jobs in the state by the year 2009. Total state government revenues through the year 2009, net of MEGA costs and adjusted for inflation, would be increased by \$5,653,000 (2000 dollars) due to the presence of this facility.

COST ANALYSIS:

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Marshall, Michigan and Indianapolis, Indiana. Based on figures obtained from the company, the cost disadvantage for BorgWarner Cooling Systems of Michigan to locate this expansion in Michigan rather than Indiana amounts to approximately \$516,605 annually over the term of the incentive. The total cost disadvantage to the company in the initial ten years totaled \$6,358,645, while over twenty years the cost disadvantage totaled \$10,332,105.

The most significant factor in this differential is wages, which are approximately 5 percent lower in Indiana. Additionally, the company would utilize an existing facility in Indiana compared to the cost of building a new facility in Michigan. The Michigan Economic Development Corporation has reviewed these cost differentials and feel they are accurate.

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OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide BorgWarner Cooling Systems of Michigan a 100 percent abatement of the six-mill State Education Tax for a length of time to match the local property tax abatement. It is estimated that the value of this abatement will be \$241,581. In addition, the state will offer job training assistance of \$1,000 each for up to 59 net new jobs, for a total of \$59,000.

The City of Marshall will be providing the company with a 50 percent abatement of real and personal property taxes for a period of 12 years, estimated to be worth up to \$1,128,093.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a high-tech MEGA employment credit of 100 percent for up to 59 net new jobs for ten years and a business activity credit of 100 percent for the initial eight years and 20 percent for the ninth year.