

**MEMORANDUM****DATE:** June 13, 2000**TO:** Michigan Economic Growth Authority**FROM:** James Donaldson, Vice President
Michigan Business Development**SUBJECT:** Briefing Memo – Delphi Automotive Systems LLC Subsidiary

301 N. WASHINGTON SQ.
4TH FLOOR
LANSING, MI 48913
1 517 335 5883
0 517 241 3683

CUSTOMER ASSISTANCE
1 517 373 9808

www.michigan.org

COMPANY NAME AND ADDRESS:

Delphi Automotive Systems LLC Subsidiary
5725 Delphi Drive
Troy, Michigan 48098

HISTORY OF COMPANY:

Delphi Automotive Systems LLC Subsidiary's (Delphi) parent company, Delphi Automotive Systems LLC and its parent company, Delphi Automotive Systems Corporation, were incorporated in Delaware on September 16, 1998 in anticipation of a spin-off from General Motors Corporation. In May, 1999, General Motors completed its divestiture. Delphi Automotive Systems Corporation manufactures and sells individual parts, systems and modules to automotive assemblers around the world. The company operates over 200 facilities in 37 countries and is the world's largest and most diversified supplier of automotive parts and components.

DESCRIPTION OF PROJECT:

The proposed project would involve an expansion of the company's existing corporate staff as well as a consolidation of divisional headquarters' staffs that would be transferred from outside the state. The project would create up to 600 new Michigan jobs over the next three years, some of which would be transferred in from out of state. These jobs would pay an average weekly wage of \$1,250 and a benefit package equal to approximately 30 percent of wages.

The company would construct two new office facilities in Troy, Michigan totaling 240,000 square feet. Capital investment in the building would total \$40.5 million and new equipment purchases would total \$11.3 million. The alternative site location being

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considered by Delphi for this expansion and consolidation is an existing facility owned by the company in another Midwest state.

BENEFIT TO THE STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 1,646 jobs in the state by the year 2014. Total state government revenues through the year 2014, net of MEGA costs and adjusted for inflation, would increase by \$82,161,000 (2000 dollars) due to the expansion of the Delphi Automotive Systems, LLC Subsidiary facility.

COST ANALYSIS:

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Michigan and another Midwest state. Based on figures obtained from the company, the cost disadvantage for Delphi to locate this expansion in Michigan rather than the other state amounts to between \$1 million and \$2 million annually over the term of the incentive.

The most significant factor in this differential is property taxes. Because the company already owns a facility in the other state, there would be no incremental change in the company's property tax related to this project in that state. The company's Michigan property tax liability would increase significantly due to the new construction required. In addition, locating the project in Michigan will necessitate a \$40.5 million capital investment for the building, which would not be required in the other state.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide Delphi 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 \$1,153,133. In addition, the state will offer job training assistance of \$1,000 each for up to 600 net new jobs, for a total of \$600,000.

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The City of Troy will be providing the company with a 50 percent abatement of the local property taxes for a period of eight years, estimated to be worth up to \$3,859,307.

BUT FOR:

Although we are not able to completely eliminate the cost disparity for the company to put this project in Michigan, the company would prefer to site this expansion/consolidation project in Michigan if we can help narrow the gap. Reasons cited by the company for preferring Michigan are its excellent existing workforce and a desire to have the project cause as little disruption as possible to its business. These reasons alone, however, are not compelling enough to make the business case for putting this project in Michigan. The package of incentives being offered to the company is crucial in deciding to expand in Michigan.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 600 net new jobs for a period of fifteen years, and a business activity credit of 100 percent for a period of fifteen years.