

FOR CONSIDERATION

July 13, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Depew (Erie County) – PCB Piezotronics Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions

General Project Plan

I. Project Summary

Grantee: PCB Piezotronics, Inc. (“PCB” or the “Company”)

ESD* Investment: A grant of up to \$500,000 to be used for a portion of the cost of real estate acquisition and the acquisition and installation of machinery and equipment.

* The New York State Urban Development Corporation doing business as the Empire State Development Corporation (“ESD” or the “Corporation”)

Project Locations: 3395 Walden Avenue, Depew**
3425 Walden Avenue, Depew

** Project activity site; other is job-retention site

Proposed Project: Real estate acquisition and renovation, acquisition and installation of machinery and equipment, and relocation expenses associated with the consolidation of operations.

ESD Incentive Offer Accepted: April 14, 2010

Project Completion: August 2011

Number of Employees at Project Locations:

Initial employment (at time of ESD Incentive Offer):	513
Current employment level:	620
Minimum employment on January 1, 2014:	563

Grantee Contact: Mr. David T. Hore, Vice President
3425 Walden Avenue
Depew, NY 14043
Phone: (716) 684-0002, ext. 2656
Fax: (716) 685-2948

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: X069

Project Team:	Origination	Ray Witzleben
	Project Management	Jean Bly
	Affirmative Action	Helen Daniels
	Finance	Ross Freeman
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Real Estate Acquisition	\$1,200,000
Building Renovations	2,600,000
Machinery & Equipment	1,000,000
Relocation Costs	<u>200,000</u>
Total Project Costs	<u>\$5,000,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$ 500,000	10%
NYSEG Infrastructure Grant**	400,000	8%
Company Equity	<u>4,100,000</u>	<u>82%</u>
Total Project Financing	<u>\$5,000,000</u>	<u>100%</u>

**Applied for grant; no commitment yet; if not awarded, Grantee will contribute equal amount as equity.

III. Project Description

A. Background

PCB, established in 1967, is a world leader in the development, manufacture and marketing of integrated sensors and related instruments. Company products include capacitive and piezoelectric quartz, tourmaline and ceramic instrumentation for measuring pressure, force, shock and vibration for a wide variety of industrial, research, aerospace and military applications ranging from the characterization of underwater blast wave propagation to monitoring micro vibrations on the solar panels of orbiting satellites. PCB's extensive investment in quality allows for control over the entire product development cycle and provides a system which can accurately and efficiently handle customer inquiries, delivery requirements, product quality and unique sensor customization situations. The Company's primary customers include General Motors (Detroit, MI), General Electric (Fairfield, CT), and Toyota (Toyota City Aichi, Japan). Major competitors include Endevco Corp. (San Juan Capistrano, CA); Dytran Instruments Inc. (Chatsworth, CA); and Wilcoxin Research (Germantown, MD).

The Company, one of the largest privately-held companies in western New York, is headquartered at an 110,000-square-foot facility in Depew and has facilities and subsidiaries located in North Carolina, Utah, California, Washington, Michigan, Germany and France. One of its subsidiaries, PCB Machining Solutions, Inc., employs 52 people at a 24,000-square-foot machine shop in Lackawanna, in close proximity to the Depew headquarters.

In early 2010, PCB advised ESD that it had outgrown its Depew manufacturing facility and intended to relocate and consolidate machining functions in Depew and at the subsidiary, PCB Machining Solutions in Lackawanna, to free-up much-needed manufacturing space. The Company was considering purchasing a vacant facility adjacent to the Depew facility to consolidate and expand the machining operations or relocating and expanding machining operations at the North Carolina facility, which had available space to immediately accommodate the machining functions. In April 2010, PCB accepted ESD's offer of a \$500,000 capital grant resulting in the Company's decision to expand operations in Depew. As a result, 513 jobs will be maintained and 50 new jobs will be created by January 1, 2014. Without ESD assistance, 120 machining jobs would have likely been relocated out of state within one year.

Previously, ESD Directors approved a \$750,000 Capital Grant in 1998 and a \$250,000 Training Grant in 2000 to assist with a 30,000-square-foot facility expansion, purchase of new machinery and equipment and related employee training at the Depew facility. In 2003 and 2004, the Company didn't meet the required job commitment for the capital and training grants. In August 2005, ESDC agreed to include PCB jobs throughout New York State, allowing the Company to be in compliance.

B. The Project

The \$5 million project involves the acquisition and renovation of an adjacent 50,000-square-foot facility; the acquisition and installation of new machinery and equipment; and relocation costs to consolidate the Lackawanna and Depew machine shop to the newly-acquired facility. The project was funded by ESD's grant, a New York State Electric & Gas Infrastructure grant, and Company equity. The project, which is substantially complete, is scheduled to be fully operational in August 2011. The Grantee has exceeded its job commitment as it has already created 107 jobs.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$500,000 capital grant (\$5,000) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will demonstrate no material or adverse changes in its financial condition prior to disbursement.
3. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed. Equity is defined as cash injected into the project by the Company or by investors, and should be auditable through Company financial statements or Company accounts, if so requested by ESD. Equity cannot be borrowed money secured by the assets in the project.
4. Prior to disbursement, the Company must employ at least the number of Full-time Permanent Employees set forth as the Baseline Employment in the table below. A Full-time Permanent Employee shall mean (a) a full-time, permanent, private-sector employee on the Grantee's payroll, who has worked at the Project Locations for a minimum of thirty-five hours per week for not less than four consecutive weeks and who is entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties; or (b) two part-time, permanent, private-sector employees on Grantee's payroll, who have worked at the Project Locations for a combined minimum of thirty-five hours per week for not less than four consecutive weeks and who are entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties.
5. Up to \$500,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$250,000) upon completion of the project substantially as described in these materials including the building acquisition and acquisition of \$1,265,000 in new machinery and equipment; documentation of real estate, machinery and equipment, building renovation and relocations project costs of approximately \$3.6 million; and documentation of the

- employment of at least 513 Full-time Permanent Employees at the Project Locations, assuming that all project approvals have been completed and funds are available;
- b) a Second Disbursement of an amount equal to 25% of the grant (\$125,000) will be disbursed upon documentation of the employment of at least 538 Full-time Permanent Employees at the Project Locations (Employment Increment of 25), provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$125,000) will be disbursed upon documentation of the employment of at least 563 Full-time Permanent Employees at the Project Locations (Employment Increment of 25), provided Grantee is otherwise in compliance with program requirements.

Payment will be made upon presentation to ESD of an invoice and such other documentation as ESD may reasonably require. Expenditures must be incurred on or after April 14, 2010, to be considered eligible project costs. All disbursements must be requested by April 1, 2014.

- 6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$500,000, for this project if ESD determines that the reallocation of the assistance would better serve the needs of the Company and the State of New York. In no event shall the total amount of any assistance to be so reallocated exceed the total amount of assistance approved by the Directors.
- 7. In consideration for the making of the Grant, Grantee will achieve the Employment Goals set forth in Column B of the table below. If the Full-time Permanent Employee Count for the year prior to the reporting date set forth in Column A of the table below is less than eighty-five percent (85%) of the Employment Goal set forth in Column B (an "Employment Shortfall"), then upon demand by ESD, Grantee shall be obligated to repay to ESD a portion of each disbursement of the Grant, as follows:

The Recapture Amount is based on the time that has lapsed between when the Grant funds were disbursed and when the Employment Shortfall occurred. The Recapture Amount shall be calculated by aggregating the Recapture Amount for each disbursement of the Grant, which in each instance shall be equal to:

- (i) 100% of the disbursed amount if the Employment Shortfall occurred in the calendar year that the disbursement was made, or in the first full calendar year after the disbursement was made;
- (ii) 80% of the disbursed amount if the Employment Shortfall occurred in the second full calendar year after the disbursement was made;
- (iii) 60% of the disbursed amount if the Employment Shortfall occurred in the third full calendar year after the disbursement was made;
- (iv) 40% of the disbursed amount if the Employment Shortfall occurred in the fourth full calendar year after the disbursement was made;
- (v) 20% of the disbursed amount if the Employment Shortfall occurred in the fifth full

calendar year after the disbursement was made.

The Grantee's number of Full-time Permanent Employees shall be deemed to be the greater of the number as of the last payroll date in the month of December for such year or the average employment for the 12 month period computed by quarter.

Baseline Employment	513
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A	B
Reporting Date	Employment Goals
February 1, 2012	513+X+Y
February 1, 2013	513+X+Y
February 1, 2014	513+X+Y
February 1, 2015	513+X+Y
February 1, 2016	513+X+Y

X = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section C.5 above (i.e. X=25, and Employment Goals shall equal [513 + X = 538] if the Second Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Second Disbursement has not yet been made then X=0.

Y = Grantee's Employment Increment that will be the basis of the Third Disbursement of the Grant as described in section C.5 above (i.e. Y=25, and Employment Goals shall equal [513 + X + Y = 563] if the Third Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Third Disbursement has not yet been made then Y=0.

IV. Statutory Basis

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of family farms.

As a result of this project, the Company will maintain its employment level of 513, including retention of 120 jobs which were at risk of relocation to North Carolina. In addition, the Company will create 50 new jobs by January 1, 2014.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.

The Company considered relocating its machining operations to an existing facility in North Carolina which could immediately accommodate an expansion project as it was operating at 50% capacity.

3. The project is reasonably likely to accomplish its stated objectives and the likely benefits of the project exceed costs.

Evaluated over a seven-year period, the following are anticipated project impacts (dollar values are present value):

- Fiscal benefits to NYS government from the project are estimated at \$8,126,919;
- Fiscal cost to NYS government is estimated at \$508,992;
- Project cost to NYS government per direct job is \$4,360;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,132;
- Ratio of project fiscal benefits to costs to NYS government is 15.97:1;
- Fiscal benefits to all governments (state and local) are estimated at \$13,696,745;
- Fiscal cost to all governments is \$524,420;
- All government cost per direct job is \$4,492;
- All government cost per total job is \$1,167;
- The fiscal benefit to cost ratio for all governments is 26.12:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$57,848,776, or \$128,679 per job (direct and indirect);
- The economic benefit to cost ratio is 110.31:1;
- Project construction cost is \$1,400,000, which is expected to generate 14 direct job years and 10 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 2.87 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is one year.

(See Project Summary Benefit-Cost Evaluation attached for detail and definitions.)

4. The requirements of Section 10(g) of the Act are satisfied.

No residential relocation is required because there are no families or individuals residing on the site.

V. Environmental Review

ESD staff has determined that the project constitutes a Type II action as defined by the New York State Environmental Quality Review Act ("SEQRA") and the implementing regulations of the New York State Department of Environmental Conservation. No further environmental review is required in connection with the project.

VI. Affirmative Action

ESD's Non-Discrimination and Affirmative Action policy will apply. PCB Piezotronics, Inc. is encouraged to include minorities and women in any job opportunities created by the Project and to solicit and utilize Minority and Women-owned Business Enterprises for any contractual opportunities generated in connection with the Project.

VII. ESD Financial Assistance Subject to Availability of Funds and Additional Approval

The provision of ESD financial assistance is contingent upon the availability of funds and the approval of the State Division of the Budget.

VIII. Additional Submissions to Directors

Resolutions

New York State Map

Project Finance Memorandum

Cost-Benefit Analysis

July 13, 2011

Depew (Erie County) – PCB Piezotronics Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions

RESOLVED, that on the basis of the materials presented to this meeting, a copy of which is hereby ordered filed with the records of the Corporation, relating to the PCB Piezotronics Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) Project (the “Project”), the Corporation hereby determines pursuant to Sections 16-m and 10 (g) of the New York State Urban Development Corporation Act of 1968, as amended (the “Act”), that

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of family farms;
2. The project would be unlikely to take place in New York State without the requested assistance;
3. The project is reasonably likely to accomplish its stated objectives and that the likely benefits of the project exceed costs;
4. There are no families or individuals to be displaced from the project area; and be it further

RESOLVED, that the Corporation does hereby adopt, subject to the requirements of Section 16(2) of the Act, the proposed General Project Plan (the “Plan”) for the Project submitted to this meeting, together with such changes therein as the President and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, a copy of which Plan, together with such changes, is hereby ordered filed with the records of the Corporation; and be it further

RESOLVED, that upon written finding of the President and Chief Executive Officer of the Corporation or his designee(s) that no substantive negative testimony or comment has been received at the public hearing held on the Plan, such Plan shall be effective at the conclusion of such hearing, and that upon such written finding being made, the President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to PCB Piezotronics, Inc. a grant for a total amount not to exceed Five Hundred Thousand Dollars (\$500,000) from the Empire State

Economic Development Fund, for the purposes, and substantially on the terms and conditions, set forth in the materials presented to this meeting, with such changes as the President and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, subject to the availability of funds and the approval of the State Division of the Budget; and be it further

RESOLVED, that the President and Chief Executive Officer of the Corporation or his designee(s) be, subsequent to the making of the grant, and each of them hereby is, authorized to take such actions and make such modifications to the terms of the grant as he or she may deem necessary or appropriate in the administration of the grant; and be it further

RESOLVED, that the provision of ESD financial assistance is expressly contingent upon: (1) the approval of the Public Authorities Control Board, if applicable, and (2) receipt of all other necessary approvals; and be it further

RESOLVED, that the President and Chief Executive Officer or his designee(s) be, and each of them hereby is, authorized in the name and on behalf of the Corporation to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider to be necessary or proper to effectuate the foregoing resolutions.

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