

FOR CONSIDERATION

March 23, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Salina (Onondaga County) – Bitzer Scroll 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; Determination of No Significant Effect on the Environment

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General Project Plan

I. Project Summary

Grantee: Bitzer Scroll, Inc. (“Bitzer Scroll” or the “Company”)

ESD\* Investment: A grant of up to \$1,400,000 to be used for a portion of the cost of the purchase 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: 1 General Motors Drive, Building No 5, Salina, Onondaga County\*  
6731 Collamer Road, Salina, Onondaga County

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

Proposed Project: Establish a new scroll compressor manufacturing operation to accommodate business growth.

ESD Incentive Offer Accepted: November 8, 2007(initial offer); November 23, 2010 (revised offer)

Project Completion: November 2010

Number of Employees at Project Location:

Initial employment (at time of ESD Incentive Offer):	12
Current employment level:	67
Minimum employment on January 1, 2013:	125

Grantee Contact: Michael McKee, General Manager  
Salina Industrial Powerpark, Building No. 5  
1 General Motors Drive  
Syracuse, NY 13206  
Phone: (315) 463-2101 x115  
Fax: (315) 463-2107

Anticipated  
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: V378

Project Team:	Origination	Ray Lawrence
	Project Management	Beverly Bobb
	Affirmative Action	Helen Daniels
	Finance	Ross Freedman
	Environmental	Rachel Shatz

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Machinery and Equipment	\$6,395,397
Building Renovations	\$179,072
Tooling	<u>510,100</u>

Total Project Costs \$7,084,569

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$1,400,000	20%
Company Equity	<u>5,684,569</u>	<u>80%</u>

Total Project Financing \$7,084,569 100%

III. Project Description

A. Background

Established in January 2007, Bitzer Scroll, Inc. is a wholly-owned subsidiary of Bitzer SE, a limited liability company of the Federal Republic of Germany. Bitzer Scroll designs and manufactures commercial scroll compressors for the heating, ventilation and air conditioning market (HVAC) in North America, Europe, and Asia. Bitzer SE, the parent company, is a global leader in

reciprocating and crew compressor technology design, manufacture and sales and currently has factories in several countries including Germany, South America, China and the United States (Syracuse). Major customers of Bitzer Scroll's products include Carrier Corp., Trane, York, and Lenox.

In September 2006, Bitzer SE established a 3,000-square-foot engineering office in East Syracuse and incorporated Bitzer Scroll for the sole purpose of designing new scroll compressors to capture the demand anticipated from the Environmental Protection Agency's ("EPA") Clean Air Act ("CAA") mandating that non-chlorine-based refrigerant be used by January 1, 2010. The air conditioning market was dominated by systems that operate with a chlorine-based refrigerant. Through the CAA, the EPA developed regulations banning the release of ozone-depleting refrigerants during the service, maintenance and disposal of air conditioners and other refrigeration equipment. This significant change created a tremendous opportunity for manufactures to design new compressors that work more efficiently. The establishment of Bitzer Scroll was intended to enable Bitzer SE to realize the same success in the scroll compressor market as the Company has had with reciprocating and screw compressors.

To capitalize on this opportunity, the Company needed a larger space to design, develop and manufacture the new compressors. Bitzer SE considered alternative locations that would provide significant labor, utility, tax, logistical, and other savings when compared with Central New York. The Company had identified existing properties in Wisconsin, near Bitzer's Northern Illinois office, and China, where Bitzer SE also had an existing facility. The Company also considered relocating the operation to a 60,000-square-foot facility in the Salina Industrial Powerpark building in East Syracuse, New York. The Salina location could house the design, development and manufacturing operations and also had space to expand. However, a significant investment by the Company was needed to make the project feasible in New York. To encourage the Company to proceed with the project in New York State and to reduce the costs, ESD made several incentive offers to the Company. In November 2010, Bitzer Scroll accepted ESD's offer to expand its manufacturing operations in New York.

As a result of the project, Bitzer Scroll will retain 12 jobs and create 113 new full-time jobs at the project location by January 1, 2013.

## B. The Project

Presently, Bitzer Scroll has invested approximately \$7,000,000 to purchase equipment for a scroll compressor manufacturing operation located in Salina Industrial Park in the Town of Salina. The 60,000-square-foot leased space will house newly purchased machinery and equipment that will be installed to support scroll compressor design, testing and development, machining cell and evaluating materials and finished goods. The factory has the capacity to produce approximately 30,000 scroll compressors a year. The new scroll compressor products will meet the requirements of regulatory changes set forth by the EPA, which calls for the elimination of chlorine-based refrigerants used in new air conditioning systems by January 1, 2010.

The Company has retained 12 positions and has already created 55 jobs.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will demonstrate no material adverse change 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 Location 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 Location 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 \$1,400,000 will be disbursed to the Grantee in three installments as follows:
  - a) an Initial Disbursement of an amount equal to 50% of the grant (\$700,000) upon documentation of machinery and equipment project costs totaling \$7,000,000 and documentation of the employment of at least 67 Full-time Permanent Employees at the Project Location (Employment Increment of 55), 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 (\$350,000) will be disbursed upon documentation of the employment of at least 92 Full-time Permanent Employees at the Project Location (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 (\$350,000) will be disbursed upon documentation of the employment of at least 125 Full-time Permanent Employees at the Project Location (Employment Increment of 33), provided Grantee is otherwise in compliance with program requirements.

Payment will be made upon presentation to ESDC of an invoice and such other documentation as ESDC may reasonably require. Expenses must be incurred on or after November 8, 2007 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 \$1,400,000, 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	12
<b>A</b>	<b>B</b>
Reporting Date	Employment Goals
February 1, 2012	12+X+Y+Z
February 1, 2013	12+X+Y+Z
February 1, 2014	12+X+Y+Z
February 1, 2015	12+X+Y+Z
February 1, 2016	12+X+Y+Z

X = Grantee's Employment Increment that will be the basis of the Initial Disbursement of the Grant as described in section C.5 above (i.e. X=55, and Employment Goals shall equal  $[12 + X = 67]$  if the Initial Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Initial Disbursement has not yet been made then X=0.

Y = 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. Y=25, and Employment Goals shall equal  $[12 + X + Y = 92]$  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 Y=0.

Z= 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. Z=33, and Employment Goals shall equal  $[12 + X + Y + Z = 125]$  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 Z=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 retain 12 jobs which were at risk of relocation to another state. In addition, the Company will create 113 new jobs.

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

The Company considered relocating its operations to Wisconsin or China. ESD's assistance helped to reduce costs and make the project feasible in New York.

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 \$4,585,980;
- Fiscal cost to NYS government is estimated at \$1,400,000;
- Project cost to NYS government per direct job is \$21,443;
- Project cost to NYS government per job (direct plus indirect ) is estimated at \$9,468;
- Ratio of project fiscal benefits to costs to NYS government is 3.28:1;
- Fiscal benefits to all governments (state and local) are estimated at \$7,783,807;
- Fiscal cost to all governments is \$1,400,000;
- All government cost per direct job is \$21,443;
- All government cost per total job is \$9,468;
- The fiscal benefit to cost ratio for all governments is 5.56:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$45,666,384, or \$308,831 per job (direct and indirect);
- The economic benefit to cost ratio is 32.62:1;
- Project construction cost is \$179,972 which is expected to generate 2 direct job years and 1 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 1.27 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 1 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

ESDC 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 for the New York State Department of Environmental Conservation. No further environmental review is required in connection with the requested authorization.

VI. Affirmative Action

ESD's Non-Discrimination and Affirmative Action policy will apply. Bitzer Scroll, 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

March 23, 2011

Salina (Onondaga County) – Bitzer Scroll 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

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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 Bitzer Scroll 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 – Designate 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 – Designate 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 – Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Bitzer Scroll, Inc. a grant for a total amount not to exceed One Million Four Hundred Thousand Dollars (\$1,400,000) 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 – Designate 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 – Designate 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 – Designate of the Corporation 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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March 23, 2011

Salina (Onondaga County) – Bitzer Scroll Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) -Determination of No Significant Effect on the Environment

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RESOLVED, that based on the material submitted to the Directors with respect to the Bitzer Scroll Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.