

FOR CONSIDERATION

March 23, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Ithaca (Tompkins County) – BorgWarner Morse TEC Capital/Training – Empire State Economic Development Fund – General Development Financing (Capital Grant) and Competitiveness Improvement Program (Training 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 Grants and to Take Related Actions

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General Project Plan

I. Project Summary

Grantee: BorgWarner Morse TEC Inc. (“Morse TEC” or the “Company”)

ESD\* Investments: A grant of up to \$459,540 (V765) to be used for a portion of the cost of the purchase of machinery and equipment; and

A grant of up to \$133,000 (V796) to be used for a portion of the cost of training.

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

Project Location: 800 Warren Road, Ithaca, Tompkins County

Proposed Project: Relocation of Variable Cam Timing product lines from an out-of-state plant and associated training.

ESD Incentive Offer Accepted: September 24, 2007

Project Completion: November 2010

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	1,329
Current employment level:	1,389
Minimum employment through January 1, 2013:	1,380

Number of Trainees: 228

Grantee Contact: Rafael Nieves, Director of Finance  
800 Warren Road  
Ithaca, NY 14850  
Phone: (607) 227-8013  
Fax: (607) 257-3363

Anticipated  
Appropriation

Sources: Empire State Economic Development Fund

ESD Project Nos.: V765, V796

Project Team:	Origination	Michael Morse
	Project Management	Brendan Healey
	Affirmative Action	Denise Ross
	Finance	Ross Freeman
	Environmental	Rachel Shatz

## II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Machinery and Equipment	\$42,000,000
Tooling	20,000,000
Training	<u>700,000</u>
Total Project Costs	<u>\$62,700,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-EDF Capital Grant (V765)	\$459,540	0.7%
ESD-Training Grant (V796)	133,000	0.2%
Company Equity	<u>62,107,460</u>	<u>99.1%</u>
Total Project Financing	<u>\$62,700,000</u>	<u>100.0%</u>

### III. Project Description

#### A. Background

BorgWarner Morse TEC Inc., a wholly-owned subsidiary of the publicly traded BorgWarner, Inc. (“BWI”), is a world leader in automotive chain systems for engine timing and power transmission/torque transfer. Its customers include virtually every global automobile maker. BWI operates 60 manufacturing and technical facilities in 14 countries serving customers in North America, South America, Europe, and Asia.

Morse TEC is headquartered in Ithaca and also has plants in North Carolina and Indiana. In addition, there are plants in countries around the world including Italy, Mexico, Japan, Canada, Taiwan, Germany, Brazil and the United Kingdom. Morse TEC manufactures chain and chain systems, including HY-VO front-wheel drive transmission chain and four-wheel drive chain, MORSE GEMINI Chain Systems, timing chain and timing chain systems, crankshaft and camshaft sprockets, chain tensioners, snubbers, and turbochargers for passenger cars and commercial vehicle applications. Morse TEC has been in the Ithaca area since 1982.

BWI continuously evaluates its manufacturing strategy and recently considered relocating its Variable CAM Timing facility from Oklahoma to New York. Morse TEC management approached ESD for financial assistance to move the Variable Cam Timing product line to Ithaca versus staying in Oklahoma. ESD responded in September 2007 with a capital grant and a training grant incentive offer. In November 2010, ESD revised the capital grant to \$459,540 and the training grant to \$133,000 to reflect employment and training commitments the Company is able to make.

Morse TEC received a \$1,000,000 JOBS Now grant from ESD in April 2001 to assist with building acquisition to allow for business expansion. The Company was assessed penalty fees totaling \$217,680 because it did not meet its annual job requirements. The penalty fees were paid and the job requirements were reduced. All other requirements under the JOBS Now grant were satisfied.

#### B. The Project

In November 2010, Morse TEC completed a capital investment and relocated the Variable Cam Timing product line from an out-of-state-plant in Oklahoma. Project activities consisted of the acquisition and installation of production equipment and tooling totaling over \$60 million. Approximately 226 employees were trained on-site by the suppliers of the specialized equipment and the Company’s manufacturing, technology and engineering group to operate and control the equipment and on preventive maintenance.

As a result of the project, BWI expects to continue to be the global technological leader in powertrain solutions. The Company’s Variable Cam Timing has been named a finalist for a prestigious 2011 Automotive News PACE Award, recognized around the world as the industry symbol of innovation. In addition, the project will allow the Company to retain 1,329 and create 51 jobs. Morse TEC has already exceeded the required job retention and creation requirement.

Upon completion of the project, BorgWarner Morse TEC will furnish a final report describing the impact and effectiveness of the project.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$459,540 capital grant (\$4,595) and 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. BorgWarner Inc. will guarantee the grant repayment obligation of its subsidiary, BorgWarner Morse TEC Inc., in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed after the Company's acceptance of ESD's offer. 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.
5. 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.
6. Funds will be disbursed according to the following:

**EDF Capital Grant (Project #V765)**

Up to \$459,540 will be disbursed to Grantee upon documentation of real estate / machinery and equipment project costs totaling \$45,000,000, and documentation of the employment of at least 1,380 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available.

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 September 24, 2007 to be considered eligible project costs. All disbursements must be

requested by April 1, 2012.

**EDF Training Grant (Project #V796)**

Up to \$133,000 of eligible training program costs will be disbursed to the Grantee upon documentation of eligible training costs totaling at least \$700,000, and documentation of the employment of at least 1,380 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available.

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 September 24, 2007, to be considered eligible project costs. All disbursements must be requested by April 1, 2012.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$592,540, 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.
8. In consideration for the making of the Grants, 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 Grants, 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 Grants, 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	1,380
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A	B
Date	Employment Goals
February 1, 2012	1,380
February 1, 2013	1,380
February 1, 2014	1,380
February 1, 2015	1,380

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 1,329 jobs and create 51 new jobs.
  
2. The proposed project would be unlikely to take place in New York State without the requested assistance.  
Without ESD assistance to lower costs and make the Company's facility competitive with the existing facility in Oklahoma, the cost would have been too high to 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 \$31,072,658;
  - Fiscal cost to NYS government is estimated at \$592,540;
  - Project cost to NYS government per direct job is \$835;
  - Project cost to NYS government per job (direct plus indirect ) is estimated at \$520;
  - Ratio of project fiscal benefits to costs to NYS government is 52.44:1;
  - Fiscal benefits to all governments (state and local) are estimated at \$52,015,450;
  - Fiscal cost to all governments is \$592,540;
  - All government cost per direct job is \$835;
  - All government cost per total job is \$520;
  - The fiscal benefit to cost ratio for all governments is 87.78:1;
  - Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$306,575,147, or \$269,193 per job (direct and indirect);
  - The economic benefit to cost ratio is 517.35:1;
  - Project construction cost is \$20,000,000 which is expected to generate 243 direct job years and 107 indirect job years of employment;

- For every permanent direct job generated by this project, an additional 0.61 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 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. The Grantee is encouraged to include minorities and women in any job opportunities created by the projects, and to solicit and utilize Minority and Women-owned Business Enterprises for any contractual opportunities generated in connection with the projects.

#### 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

Ithaca (Tompkins County) – BorgWarner Morse TEC Capital/Training – Empire State Economic Development Fund – 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 Grants and to Take Related Actions

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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 BorgWarner Morse TEC Capital/Training - Empire State Economic Development Fund 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 BorgWarner Morse TEC grants for a total amount not to exceed Five Hundred Ninety Two Thousand Five Hundred Forty Dollars (\$592,540) 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 grants, and each of them hereby is, authorized to

take such actions and make such modifications to the terms of the grants 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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