

FOR CONSIDERATION

March 23, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Amityville (Suffolk County) – GKN Aerospace Monitor MAP 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: GKN Aerospace Monitor, Inc. (“GKN” or the “Company”)

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

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

Project Location: 1000 New Horizons Blvd, Amityville, Suffolk County

Proposed Project: Purchase and installation of machinery and equipment and completion of related infrastructure improvements.

ESD Incentive Offer Accepted: January 8, 2010

Project Completion: May 2010

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	340
Current employment level:	323
Minimum employment through January 1, 2015:	290

Grantee Contact: Chris Nagowski, Director of Facilities & Machine Maintenance
 1000 New Horizons Blvd.
 Amityville, NY 11701
 Phone: (631) 761-1280
 Fax: (631) 957-8158

Anticipated
 Appropriation
 Source: Empire State Economic Development Fund

ESD Project No.: V711

Project Team:	Origination	Aida Reyes-Kuehn
	Project Management	Jill Wolfeld
	Affirmative Action	Gowshihan Sriharan
	Finance	Amit Nihalani
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
HyperMach Vertical Profiler	\$4,075,000
Employee Training	36,000
Facility Infrastructure	<u>1,165,000</u>
Total Project Costs	<u>\$5,276,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	500,000	9%
Company Equity	<u>4,776,000</u>	<u>91%</u>
Total Project Financing	<u>\$5,276,000</u>	<u>100%</u>

III. Project Description

A. Background

GKN Aerospace Monitor Inc. is a wholly owned subsidiary of British aerospace company GKN Aerospace Inc., itself a subsidiary of GKN Plc. GKN manufactures highly engineered machined aircraft structural components used in the commercial and defense aerospace industry. The Company's products are found in numerous aircraft namely Boeing 737, 747, 767, 777 and 787 as well as military aircraft including F18, F22 and F35 (the new Joint Strike Fighter). These products consist of landing gear assemblies, seat tracks, titanium and aluminum bulkheads, engine pylon assemblies, and track thrust reversers. The Company's primary competition includes Magellan Aerospace, Aero CNC and Primus International.

In order to be competitive and to be able to manufacture machined products in a more productive and efficient manner, GKN, needed to invest in a new machinery and equipment to successfully fulfill a new contract for the new Boeing 787 Dreamliner. To fill a funding gap, the Company approached ESD for financial assistance because the Company's Amityville facility has significantly higher operating costs which include overhead, property taxes, electricity and salaries compared to its competitors as well as the Company's additional facilities in Missouri and Kansas. ESD's July 20, 2007, MAP offer induced GKN to purchase and install new machinery and equipment in the Amityville facility instead of in Missouri or Kansas, ensuring that the Amityville facility will remain competitive.

Manufacturing is the most significant wealth-creating and value-adding sector of the NYS economy outside of the New York City metropolitan area. The purpose of the ESD's Manufacturing Assistance Program ("MAP") is to encourage New York State manufacturers to invest in projects that substantially improve the competitiveness and productivity of their operations, thus increasing their long-term viability and ensuring the health of the state's manufacturing economy.

B. The Project

The Company, in order to improve its ability to manufacture machined products more efficiently, completed a \$5.2 million dollar project which included the purchase of the HyperMach Vertical Profiler 9-axis machine (the "Profiler") and upgrades to the infrastructure to accommodate the Profiler. The addition of the new Profiler ensures that GKN will be able to fulfill its new contract with Boeing and secure additional contracts which will increase sales and attract new customers. The Profiler will also reduce the highly inefficient and time consuming task of interrupting large production runs and reduce overhead costs per pound of product produced.

Since installation of the Profiler in January 2008, GKN has reduced costs through improved productivity both in increased yields and output per man-hour. As a result of this project, the Company will retain 290 employees, and improve its competitiveness and productivity. The Company is eligible for a fourth disbursement of the grant totaling \$150,000 if it creates 69 jobs to bring its total employment to 359. The facility is considered to be fully operational.

C. MAP Project Findings and Outcomes

This project qualifies as a Manufacturing Assistance Program project because the Company i) is a resident New York State manufacturer with between 50 and 1,000 employees; ii) exports at least 30% of its production beyond its region or provides at least 30% of its production to a manufacturer that exports beyond the Company's region; and iii) is making a substantial investment of at least \$1,000,000 in order to improve its competitiveness and productivity and thereby enhance its long-term viability in the State of New York.

The project is expected to produce the following measurable outcomes for the Company:

Primary Outcome(s): The Company will maintain the production capacity of 48 bulkheads annually.

Secondary Outcome(s): Set up hours to produce 48 bulkheads annually will be reduced 54% from 420 to 192 hours. In addition, the process to produce 48 bulkheads annually will be reduced 41% from 1,803 hours to 1,056 hours.

Total estimated value of competitiveness and project outcomes: \$170,625 annually

D. 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 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 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.
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 \$500,000 will be disbursed to the Grantee in four installments as follows:
 - a) an Initial Disbursement of an amount equal to 20% of the grant (\$100,000) will be disbursed upon documentation of installation of the HyperMach Profiler and completion of related infrastructure improvement costs totaling \$3,500,000, and documentation of the employment of at least 290 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available;
 - b) a Second Disbursement of an amount equal to 20% of the grant (\$100,000) will be disbursed upon production of 24 bulkheads for the F-18 fighter jet of military

- acceptable quality from August 2009 through December 2009, and documentation of the employment of at least 290 Full-time Permanent Employees at the Project Location provided Grantee is otherwise in compliance with program requirements;
- c) a Third Disbursement of an amount equal to 30% of the grant (\$150,000) will be disbursed upon production of 24 bulkheads (cumulative 48) for the F-18 fighter jet of military acceptable quality through April 2010, and documentation of the employment of at least 290 Full-time Permanent Employees at the Project Location provided Grantee is otherwise in compliance with program requirements;
 - d) a Fourth Disbursement of an amount equal to 30% of the grant (\$150,000) will be disbursed upon documentation of the employment of at least 359 Full-time Permanent Employees at the Project Location per month for twelve (12) consecutive months 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. Expenses must be incurred on or after July 30, 2007, to be considered eligible project costs and must be requested by no later than April 1, 2013. Expenditures incurred prior to July 20, 2007, the date the original offer letter was accepted, cannot be reimbursed by grant funds.

- 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 ESDC, Grantee shall be obligated to repay to ESDC 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	290
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A	B
Reporting Date	Employment Goals
February 1, 2012	290+X
February 1, 2013	290+X
February 1, 2014	290+X
February 1, 2015	290+X

X = Grantee's Employment Increment that will be the basis of the Fourth Disbursement of the Grant as described in section C.5 above (i.e. X=69, and Employment Goals shall equal $[290 + X = 359]$ if the Fourth Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Fourth Disbursement has not yet been made then X=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 make significant investments in its manufacturing facility, thereby ensuring its continued viability and the retention of 290 employees and the creation of 69 jobs.

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

Without ESD assistance, this project would likely have been relocated to an existing facility in Missouri or Kansas.

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 \$8,219,945;
- Fiscal cost to NYS government is estimated at \$500,000;
- Project cost to NYS government per direct job is \$2,716;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,638;
- Ratio of project fiscal benefits to costs to NYS government is 16.44:1;

- Fiscal benefits to all governments (state and local) are estimated at \$14,802,231;
- Fiscal cost to all governments is \$500,000;
- All government cost per direct job is \$2,716;
- All government cost per total job is \$1,638;
- The fiscal benefit to cost ratio for all governments is 29.60:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$75,349,248, or \$246,908 per job (direct and indirect);
- The economic benefit to cost ratio is 150.70:1;
- Project construction cost is \$1,508,500 which is expected to generate 12 direct job years and 8 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.67 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

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. The client 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

Amityville (Suffolk County) – GKN Aerospace Monitor MAP 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 GKN Aerospace Monitor MAP 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 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 Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to GKN Aerospace Monitor, 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 – 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 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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