

FOR CONSIDERATION

May 23, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Cazenovia (Madison County) – Marquardt Switches 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: Marquardt Switches, Inc. (“Marquardt” or the “Company”)

ESD* Investment: A grant of up to \$425,000 to be used for a portion of the cost of machinery and equipment.

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

Project Location: 2711 Route 20 East, Cazenovia, Madison County

Proposed Project: Acquisition of new machinery and equipment to support growth in the production of electronic systems for the auto industry.

ESD Incentive Offer Accepted: April 30, 2009 (initial offer); April 6, 2010 (revised)

Project Completion: March 2011

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	291
Current employment level:	412
Minimum employment through January 1, 2016:	291

Grantee Contact: Jochen Becker, President
2711 Route 20 East
Cazenovia, NY 13035
Phone: (315) 655-8050 ext. 6230
Fax: (315) 655-8042

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: W618

Project Team:	Origination	James Fayle
	Project Management	Jessica Hughes
	Affirmative Action	Helen Daniels
	Finance	Ross Freeman
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>	
Machinery & Equipment	<u>\$6,150,000</u>	
Total Project Costs	<u>\$6,150,000</u>	
<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD – Grant	\$ 425,000	7%
Company Equity	<u>5,725,000</u>	<u>93%</u>
Total Project Financing	<u>\$6,150,000</u>	<u>100%</u>

III. Project Description

A. Background

Marquardt Switches, Inc., established in 1981, provides high quality, innovative switching products to the global automotive, power tool and appliance switch markets. The Company manufactures automotive ergonomics switches, door latch switches, rocker switches for use in freightliners and driver authorization systems (“DAS”), such as key fobs, or remote controlled keyless entry systems, and steering column lock modules for the automotive industry. Marquardt is a wholly-owned subsidiary of Marquardt GmbH (the “Parent”), a family-owned German company and a leader in the development of sophisticated electronic systems and controls, which employs approximately 4,500 workers and operates eleven plants around the world, including manufacturing facilities in Cazenovia, New York; Shanghai, China; and Rietheim-Weilheim, Germany. Marquardt serves as Marquardt GmbH’s North American headquarters for sales, development and production for the U.S. market, and operates from a 95,000-square-foot facility in Madison County. Marquardt’s major customers include Chrysler (Auburn Hills, MI), General Motors (Warren, MI), Mercedes Benz (Vance, AL) and Freightliner Trucks (Portland, OR). Major competitors include Delphi (Troy, MI), Continental Automotive Systems USA (Auburn Hills, MI) and TRW Automotive (Livonia, MI).

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.

In early 2009, the Parent was seeking to invest in more efficient machinery and equipment that would enable the Company to compete more effectively in the long-term and win new contracts with Chrysler and Mercedes. The Parent considered Asia as well as Romania because Marquardt was already producing for Mercedes in both countries. Marquardt managers in Cazenovia, NY approached ESD to seek an incentive to convince the Parent to make the investment in New York State. In March 2009, ESD offered a \$425,000 MAP capital grant to defray the cost of the machinery and equipment and induce the Company to make the investment in New York State. Without the requested assistance from ESD, this process improvement project would likely not have taken place at the Company facility in Cazenovia. Without these much needed improvements, not only would existing product lines suffer but also Marquardt’s ability to win new and future business would be severely limited, putting the Company at a sharp competitive disadvantage.

Since 1992, ESD has approved approximately \$1.9 million in loans and grants to or for the benefit of Marquardt Switches, Inc., for a variety of capital and training projects. The Company fell below employment goals in 2003, but ESDC waived any payment penalty and the Company has

since exceeded the goal of 250 employees. All loans have been satisfied and the Company is currently in compliance with all previous agreements with ESDC.

B. The Project

The project, completed in March 2011, specifically targeted new business with Chrysler and Mercedes Benz, and involved the purchase and installation of machinery and equipment necessary to achieve significant production efficiencies. New machinery and equipment included assembly line and end-of-line test equipment for Chrysler and Mercedes programs, injection molding machines, a high speed surface mount technology equipment line and several pieces of test lab equipment. Marquardt's 17 injection molding presses are new, state of the art, machines outfitted with robotics and conveyors that automatically handle its resin, parts and regrind, that in turn allows the Company to operate at an extremely high efficiency level. All of the equipment is tied together through its traceability systems making Marquardt best in class to its customers. The Company must retain 291 employees through January 1, 2016. Currently, the Company is exceeding its employment goal employing 412 people.

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:

Production of 170,000 commercially acceptable Chrysler Driver Authorization units during a nine-month period.

Secondary Outcome(s):

Reduction in waste; increased machine and labor efficiency.

Total estimated value of competitiveness and project outcomes: \$27,390,000 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 \$425,000 (\$4,250) 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 \$425,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 40% of the grant (\$170,000) will be disbursed upon completion of the project substantially as described in these materials; documentation of machinery and equipment project costs totaling \$6,000,000, and documentation of the employment of at least 291 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 60% of the grant (\$255,000) will be disbursed upon documentation of the achievement of 100% of the anticipated Primary Outcomes, documentation verifying the production of 170,000 commercially acceptable Chrysler Driver Authorization System units during a nine month period, and employment of at least 291 Full-time Permanent Employees, 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 30, 2009, to be considered eligible project costs. All disbursements must be requested by April 1, 2013.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$425,000, 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 one hundred percent (100%) 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	291
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A	B
Date	Employment Goals
February 1, 2012	291
February 1, 2013	291
February 1, 2014	291
February 1, 2015	291
February 1, 2016	291

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 investment(s) in its manufacturing facility, thereby ensuring its continued viability and the retention of 291 employees. In addition, this project will help make the Company more competitive, and thus increase the economic viability of the state's manufacturing industry.

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 Asia or Romania.

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 \$7,058,016;
- Fiscal cost to NYS government is estimated at \$425,000;
- Project cost to NYS government per direct job is \$2,729;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,192;
- Ratio of project fiscal benefits to costs to NYS government is 16.61:1;
- Fiscal benefits to all governments (state and local) are estimated at \$11,869,930;
- Fiscal cost to all governments is \$425,000;
- All government cost per direct job is \$2,729;
- All government cost per total job is \$1,192;
- The fiscal benefit to cost ratio for all governments is 27.93:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$55,265,205, or \$155,009 per job (direct and indirect);
- The economic benefit to cost ratio is 130.04:1;
- There is no construction activity related to this project;
- For every permanent direct job generated by this project, an additional 1.30 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. Marquardt Switches, 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

May 23, 2011

Cazenovia (Madison County) – Marquardt Switches 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 Marquardt Switches 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 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 Marquardt Switches, Inc. a grant for a total amount not to exceed Four Hundred Twenty-Five Thousand Dollars (\$425,000) 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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Marquardt Switches MAP Capital

Cazenovia

Madison County



