

FOR CONSIDERATION

September 17, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Middletown (Orange County) – Advanced Coating Technologies 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

General Project Plan

I. Project Summary

Grantee: Advanced Coating Technologies, LLC (“ACT” 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 machinery and equipment.

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

Project Locations: 60 Turner Drive, Wallkill*
109 Tower Drive, Wallkill**

*Project activity site; jobs will be created at this site.

** Project activity site; jobs will be retained and created at this site.

NYS Empire Zone
(or equivalent): Newburgh/Stewart Empire Zone October 26, 2007; 724:1

Proposed Project: The project involves the construction of a new 85,000-square-foot building by the landlord, facility upgrade and the purchase and installation of machinery and equipment by ACT to grow the business.

ESD Incentive Offer Accepted: October 10, 2006

Project Completion: November 2008

Number of Employees at Project Location:

Initial employment (at time of ESD Incentive Offer):	35
Current employment level:	68
Minimum employment on January 1, 2011:	116

Grantee Contact: John Yelle, Finance & Administration Manager
60 Turner Drive – Suite A
Middletown, New York 10941
Phone: (845) 692-6613
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Anticipated
Appropriation
Source: Empire State Economic Development Fund

ESD Project No.: U542

Project Team:	Origination	Paul Taxter
	Project Management	Glendon McLeary
	Affirmative Action	Denise Ross
	Finance	Jonevan Hornsby
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Construction	\$10,000,000
Machinery & Equipment	46,000,000
Training	500,000
Expansion	<u>1,000,000</u>
Total Project Costs	<u>\$57,500,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$500,000	2%
Pratt & Whitney and Chromally Gas Turbine Corporation	45,000,000	78%
Frassetto Companies, LLC	10,000,000	17%
Company Equity	<u>1,500,000</u>	<u>3%</u>
Total Project Financing	<u>\$57,500,000</u>	<u>100%</u>

III. Project Description

A. Background

Formed in 1992, Advanced Coating Technologies, LLC is a joint venture between Pratt & Whitney (“P&W”), a division of United Technologies Corporation (NYSE:UTX) and Chromalloy Gas Turbine Corporation (“CGTC”), a subsidiary of the Sequa Corporation. P&W is a world leader in the design, manufacture and service of aircraft engines, space propulsion systems and industrial gas turbines (and United Technologies Corporation provides high-technology products and services to the aerospace and building industries.) CGTC specializes in the manufacture and service of high pressure turbine components of aircraft and industrial gas turbine engines and the Sequa Corporation is a diversified manufacturer whose other principal businesses serve the industrial machinery, metal coating, specialty chemicals and automotive markets.

ACT uses CGTC production capabilities to apply P&W’s proprietary thermal barrier coatings to the turbine airfoils on original manufacturer and aftermarket hardware for commercial and military aircraft engines. ACT’s only customer is P&W and it generated over \$10 million in sales in 2008.

In 2006, the joint venture between P&W and CGTC was due to expire. Due to new engine designs and the need for additional coating capacity, the partners saw an opportunity to grow and discussed an expansion and extension of the joint venture. However, the Company’s existing facility in Wallkill could not accommodate the increased production and it needed to select a new location before the extension of the joint venture could be finalized. The Company considered several options for the growth of the business. The partners contemplated relocating production off-shore which would have resulted in lower labor costs and taxes. Another option was to relocate ACT to an 877,000-square-foot facility in New Brunswick, Maine that P&W owns. This facility could have accommodated its operation, place it under one roof, and allow for future expansion. The state of Maine also offered an incentive package which included Tax Increment Financing, Pine Tree Zone Benefits (similar to Empire Zone), and Quality Centers (training) Program.

The partners also considered growing the business in New York. Frassetto Companies, LLC, the owner of ACT’s existing facility (109 Tower Drive), agreed to construct a new 85,000-square-foot facility at an adjacent parcel (60 Turner Drive) that Frassetto Companies, LLC also owned. ACT would lease the new facility on a long-term basis. ACT would also need to make a significant investment in machinery and equipment (“M&E”) and upgrade the infrastructure of its

existing facility to accommodate the new M&E. To reduce the cost of the project and to induce the Company to proceed with the project in New York State, in September 2006, ESD offered an incentive package inclusive of a \$500,000 capital grant to assist with the cost of the acquisition of the machinery and equipment. On October 10, 2006, the Company accepted the offer and has subsequently completed the project. The project is expected to retain 35 jobs and create 81 new jobs, of which 33 have already been created. Without this grant, 35 jobs could have been relocated off-shore or to Maine and the potential for the creation of 81 new jobs might have been lost to New York State.

ACT has been approved as a regionally significant project in the Newburgh/Stewart Empire Zone and received Empire Zone certification in October 2007.

B. The Project

The project involved the construction of a new 85,000-square-foot facility by Frassetto Companies, LLC, infrastructure upgrades to ACT's existing facility, and the purchase and installation of new generators, furnaces, air plasma and low pressure plasma spray coaters, air compressors, dot matrix markers, and an electron beam physical deposition coater. As of November 2008, the project is complete and fully operational. ACT upgraded its existing facility, purchased and installed the new machinery and equipment, extended the joint venture for an additional 15 years, and entered into long-term lease agreements for 60 Turner Drive and 109 Tower Drive. United Technologies Realty ("UTR"), the real estate acquisition and leasing arm of United Technologies Corporation, leases both facilities directly from Frassetto Companies, LLC and subleases to ACT. UTR has also subleased a portion of 60 Turner Drive to Meyer Tool, an airfoil hole drilling company.

The project will enable ACT to double its production capacity, making it possible for the Company to meet its production requirements. Additionally, the project has allowed Meyer Tool, one of ACT's subcontractors, to co-locate at the new facility reducing production lead time and bringing valuable jobs to New York State.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$500,000 capital grant (\$5,000) upon execution of the grant disbursement agreement. In addition, at the time of disbursement, the Company will 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 or the Company's owners will contribute at least 10% in equity to the Project. Equity is defined as any non-debt source of capital, and should be auditable through Company financial statements or Company accounts, if so requested by ESD.
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 documentation of machinery and equipment project costs totaling \$23,000,000, and documentation of the employment of at least 35 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 78 Full-time Permanent Employees at the Project Locations (Employment Increment of 43), 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 116 Full-time Permanent Employees at the Project Locations (Employment Increment of 38), 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 October 10, 2006 to be considered eligible project costs. All disbursements must be requested by April 1, 2011.

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	35
A	B
Reporting Date	Employment Goals
February 1, 2011	35+X+Y
February 1, 2012	35+X+Y
February 1, 2013	35+X+Y
February 1, 2014	35+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=43, and Employment Goals shall equal $[35 + X = 78]$ 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=38, and Employment Goals shall equal $[35 + X + Y = 116]$ 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 retain its employment level of 35 jobs which were at risk of relocation to another state. In addition, the Company will create 81 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 Maine or off-shore. 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 \$3,559,922;
- Fiscal cost to NYS government is estimated at \$500,000;
- Project cost to NYS government per direct job is \$7,675;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$4,467;
- Ratio of project fiscal benefits to costs to NYS government is 7.12:1;
- Fiscal benefits to all governments (state and local) are estimated at \$6,200,385;
- Fiscal cost to all governments is \$500,000;
- All government cost per direct job is \$7,675;
- All government cost per total job is \$4,467;
- The fiscal benefit to cost ratio for all governments is 12.40:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$35,749,130, or \$319,399 per job (direct and indirect);
- The economic benefit to cost ratio is 71.50:1;
- Project construction cost is \$10,000,000 which is expected to generate 83 direct job years and 42 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.73 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

Environmental language will be incorporated prior to submission of early final materials.

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 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

September 17, 2009

Middletown (Orange County) – Advanced Coating Technologies 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 Advanced Coating Technologies 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 Chairman 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 Chairman 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 Chairman and Chief Executive Officer-Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Advanced Coating Technologies, LLC 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 Chairman 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 Chairman 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 Chairman 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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September 17, 2009

Middletown (Orange County) – Advanced Coating Technologies Capital – Empire State
Economic Development Fund - General Development Financing (Capital Grant) –
Determination of No Significant Effect on the Environment

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

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