

FOR CONSIDERATION

November 21, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Medina (Finger Lakes Region - Orleans County) – Brunner International 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: Brunner International, Inc. (“Brunner” or the “Company”)

ESD\* Investment: A grant of up to \$150,000 to be used for a portion of the cost of renovations, construction and the purchase 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: 3959 Bates Road, Medina, Orleans County

Proposed Project: Facility renovation and expansion, and the purchase of machinery and equipment associated with the establishment of a new product line.

ESD Incentive Offer Accepted: April 10, 2008

Project Completion: April 2010

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	265
Current employment level:	363
Minimum employment on March 31, 2014:	315

Grantee Contact: Steven L. Lynch, Director of Finance  
3959 Bates Road  
Medina, NY 14103  
Phone: (585) 798-6000 ext. 222  
Fax: (585) 798-6003

Anticipated  
Appropriation  
Source:

Empire State Economic Development Fund

ESD Project No.: V967

Project Team:	Origination	Helen Blum
	Project Management	Wai Shiu
	Affirmative Action	Helen Daniels
	Environmental	Soo Kang

Regional Council: The Finger Lakes Regional Council has been made aware of this item.

## II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Machinery & Equipment	\$12,150,000
Building Acquisition and Renovation	<u>2,000,000</u>

Total Project Costs \$14,150,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$150,000	1.0%	
Office of Small Cities Loan*	484,000	3.4%	
Key Bank Long-term Loan	7,000,000	49.5%	**
Company Equity	<u>6,516,000</u>	<u>46.1%</u>	

Total Project Financing \$14,150,000 100.0%

\* County of Orleans Industrial Development Agency; 2% / 7-year / Company equipment used as loan collateral

\*\* 4.638% / Interest-only for 12 months; thereafter, conversion to a permanent loan on a 7-year amortization and maturity / Blanket security interest in all accounts receivable and assets.

### III. Project Description

#### A. Background

Brunner International, Inc. is a privately held manufacturer of brake components for the heavy-duty commercial vehicle market, including OEM and aftermarket. The Company originated in Ontario, Canada, and located its headquarters and principal manufacturing plant in Medina in 1992.

The Company sells its products to brake assembly suppliers, whose number have been reduced to only a handful due to industry consolidation in recent years. Most of these brake suppliers are located in the south-

Over the past few years, competition for business from this shortened list of customers has been compounded by new entrants from Chinese and Indian brake component manufacturers, who enjoy unfair trade advantages through trademark and patent infringements, and their governments' currency intervention and industry subsidies. Despite the intense competitive landscape, Brunner has been able to maintain its market-leading position. In order to strategically position itself for continuous growth, Brunner made a decision in 2008 to embark on two strategic projects: to invest in equipment for manufacturing a new product line of axle shafts and to expand its brake shoe production line.

Due to a financing gap, Brunner applied to ESD for financial assistance in 2008 and received a \$150,000 offer of a capital grant to help grow its business in New York. The Company accepted the offer in April 2008. Without ESD's assistance, the two strategic projects might not have taken place, and the additional employment would not have been created in New York.

In 2003, the ESD Board of Directors approved a \$150,000 capital grant to Brunner for the purchase of machinery and equipment. The Company experienced a temporary employment shortfall in 2007, resulting in ESD's recapturing a portion of the grant.

#### B. The Project

Brunner completed the project in April 2010, which consisted of the acquisition of machinery and equipment for the new business of manufacturing truck axles and the expansion of the Company's existing facility with a 41,250-square-foot addition. The Project Location is currently co-owned by Brunner and the County of Orleans Industrial Development Agency, who are providing financing for the project. An agreement is in place for Brunner to assume full ownership by June 2015.

As a result of the project, Brunner's June 2011 year-to-date revenue saw a 50% increase over the previous year. The Company currently has 363 full-time employees at the Project Location, surpassing its employment commitment of 315 jobs.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$150,000 capital grant (\$1,500) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will be obligated to advise ESD of any material or adverse changes 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 \$150,000 will be disbursed to the Grantee in three installments as follows:
  - a) an Initial Disbursement of an amount equal to 50% of the grant (\$75,000) upon documentation of machinery and equipment project costs totaling \$10,000,000, upon completion of the project substantially as described in these materials, as evidenced by a Certificate of Occupancy, and documentation of the employment of at least 265 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 25% of the grant (\$37,500) will be disbursed upon documentation of the employment of at least 290 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 (\$37,500) will be disbursed upon documentation of the employment of at least 315 Full-time Permanent Employees at the Project Location (Employment Increment of 25), 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 April 10, 2008 to be considered eligible project costs. All disbursements must be requested by April 1, 2012.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$150,000, 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	265
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A	B
Reporting Date	Employment Goals
February 1, 2013	265+X+Y
February 1, 2014	265+X+Y
February 1, 2015	265+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=25, and Employment Goals shall equal [265 + X = 290] 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=25, and Employment Goals shall equal [265 + X + Y = 315] 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 has maintained its employment level of 265 and created 98 new jobs, surpassing the requirement of 50 additional jobs.

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

Without ESD's assistance, the project would likely not have taken place, and the additional employment would not have been created 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 \$1,797,266;
- Fiscal cost to NYS government is estimated at \$226,543;
- Project cost to NYS government per direct job is \$6,008;
- Project cost to NYS government per job (direct plus indirect ) is estimated at \$3,183;
- Ratio of project fiscal benefits to costs to NYS government is 7.93:1;
- Fiscal benefits to all governments (state and local) are estimated at \$3,024,133;
- Fiscal cost to all governments is \$226,543;
- All government cost per direct job is \$6,008;

- All government cost per total job is \$3,183;
- The fiscal benefit to cost ratio for all governments is 13.35:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$15,397,538, or \$216,325 per job (direct and indirect);
- The economic benefit to cost ratio is 67.97:1;
- Project construction cost is \$1,300,000, which is expected to generate 13 direct job years and nine indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.89 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is one 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

The Town of Ridgeway Planning Board, as lead agency, has completed an environmental review of the proposed project, pursuant to the requirements of the State Environmental Quality Review Act and the implementing regulations of the New York State Department of Environmental Conservation. This review found the project would not have a significant effect on the environment. ESD staff reviewed the supporting materials and concurs. It is recommended that the Directors make a Determination of No Significant Effect on the Environment.

VI. Affirmative Action

ESD's Non-Discrimination and Affirmative Action policy will apply. Brunner International, 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  
 Benefit-Cost Analysis

November 21, 2011

Medina (Finger Lakes Region - Orleans County) – Brunner International 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

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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 Brunner International 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 Brunner International, Inc. a grant for a total amount not to exceed One Hundred and Fifty Thousand Dollars (\$150,000) 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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November 21, 2011

Medina (Finger Lakes Region - Orleans County) – Brunner International 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 Brunner International Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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