



MEMORANDUM

TO: Delegates of the Michigan Strategic Fund ("MSF") Board for the Michigan Business Development Program

FROM: Stacy Bowerman, Development Finance Manager

DATE: February 14, 2013

SUBJECT: Approval of Michigan Business Development Request for \$500,000 Performance-based Grant to:

Herbruck Poultry Ranch, Inc. ("Applicant" or "Company")
6425 West Grand River
Saranac, Michigan 48881
www.herbrucks.com

MBDP PROGRAM AND ITS GUIDELINES

On December 21, 2011, the MSF Board approved the Michigan Business Development Program ("MBDP") and its guidelines. The primary intended objective of the MBDP is to provide incentives to businesses that create qualified jobs, make qualified investments, or a combination of both, in Michigan.

SOURCE OF INFORMATION

It is the role of the Development Finance staff ("MEDC Staff") to review for eligibility, completeness, and adherence to MBDP guidelines, the information provided by the applicant and to manage the MSF's investment. Explanatory and background information is supplied in summary form to provide context for the request and is drawn exclusively from materials submitted by the applicant, and, as applicable, from other relevant third party sources utilized by MEDC staff.

HISTORY OF THE APPLICANT

The Applicant is a family owned egg producer located in Ionia County, Michigan. Founded in 1984, the Applicant produces eggs for local, regional and national customers in retail and food service.

Increasing egg demand has presented an opportunity for the company to grow its egg production and processing facilities. This growth requires an investment to expand the Company's liquid waste processing capabilities. Currently, the Applicant trucks its wastewater to the Lakewood Wastewater Authority from four of its facilities in Ionia County. The Applicant is exploring options to support the increase in liquid waste, including a \$2,000,000 investment in a new forced main sewer line tied directly into the Lakewood Wastewater Authority. The new forced main sewer line will allow the Applicant to expand at two of its Saranac facilities and its Ionia facility.

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The Applicant was awarded a \$400,000 CDBG Grant in 2007 for Public Infrastructure Improvements related to a new organic egg production facility. The project was completed and the CDBG grant has been successfully closed-out.

PROJECT DESCRIPTION

The Applicant plans to expand its existing operations in the Village of Saranac, Ionia County (6425 West Grand River), make investments and create jobs related to egg production for the food service industry.

- a) The Applicant is a "Qualified Business", as defined in MCL 125.2088r(9)(b), that is located and operates in Michigan.
- b) The project will be located in Ionia County, also within the Lakewood Wastewater Authority District. The Lakewood Wastewater Authority has offered a "staff, financial, or economic commitment to the project" in the form of waiving the sanitary sewer connection fee of \$405,000.
- c) The Applicant has demonstrated a need for the funding. The Applicant currently imports additional eggs to meet customer demands. In order to expand the Applicant's egg production, the Applicant will need to offset the cost of the new sewer line. If the Applicant is unable to do so, they will continue to outsource to meet customer demands.
- d) The Applicant plans to create 50 Qualified New Jobs above a statewide base employment level of 411.
- e) The project will require a Qualified Investment of \$2 million by March 2016 as further defined in the attached term sheet.
- f) Pursuant to the program guidelines, the following was taken into consideration for the proposed project: the project is shovel ready and involves near term job creation with 50 new jobs within three years; level of investment; demonstrated need; and the project results in a positive ROI for Michigan..

INCENTIVE OPPORTUNITY

This project involves the creation of 50 Qualified New Jobs, with the potential for up to 55 total jobs as a result of the Project, and a Qualified Investment of \$2,000,000, with total capital investment of up to \$17,150,000 in the Ionia County. The requested incentive amount from the MSF is \$500,000 in the form of a performance-based grant. Please see below for more information on the recommended action.

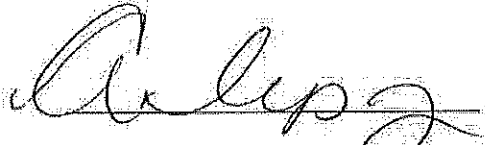
RECOMMENDATIONS

MEDC Staff recommends (the following, collectively, "Recommendation"):

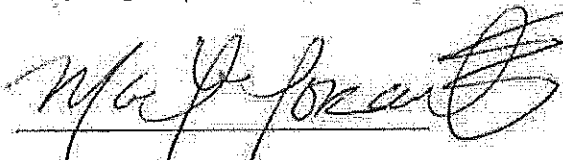
- a) Approval of the MBDP Proposal as outlined in the attached term sheet (collectively, "MBDP Proposal");
- b) Closing the MBDP Proposal, subject to available funding under the MBDP at the time of closing ("Available Funding"), satisfactory completion of due diligence, (collectively, "Due Diligence"), finalization of all MBDP transaction documents, and further subject to the following terms and conditions:
 - a. Commitment will remain valid for 120 days with approval for MSF Fund Manager to extend the commitment an additional 60 days;
 - b. MSF Fund Manager can negotiate final milestone performance terms from that contained in the Term Sheet, and additional and other terms so long as the

additional and other terms are not otherwise materially adverse to the MSF, to accommodate final signing of the Transaction Documents.

APPROVAL AUTHORITY – MBDP SUPPORT MEMO
Michigan Economic Development Corporation



Amy Deprez, Director, Development Finance

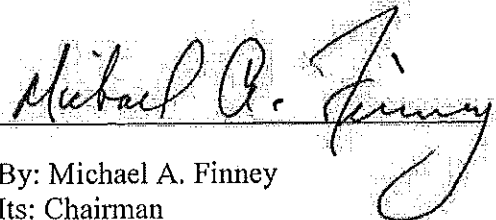


Mark Morante, Senior Vice President, Program Management

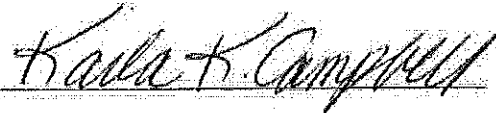
The Recommendation is approved subject to Available Funding and Completion of Due Diligence, and execution of all MBDP transaction documents, all in accordance with the MBDP and its guidelines:

Note: To utilize the delegation authority granted by the MSF Board, the approval of the Chairperson, and either the MSF Fund Manager of the MSF State Treasurer Director, are required for this commitment under the MBDP:

Michigan Strategic Fund



By: Michael A. Finney
Its: Chairman



By: Karla K. Campbell
Its: Fund Manager



By: Andy Dillon, State Treasurer
Its: Director



**MICHIGAN BUSINESS DEVELOPMENT PROGRAM
Performance Based Grant - Term Sheet**

The following is a summary of the highlights of the project and basic terms for which the Company desires grant support from the Michigan Strategic Fund ("MSF") under the Michigan Business Development Program ("MBDP"). While the MBDP is operated and funded through the MSF, recommendation for approval of a MBDP incentive award is presented by the Michigan Economic Development Corporation ("MEDC") to the MSF.

Date: 1/29/2013

- 1. Company Name:** Herbruck Poultry Ranch, Inc. ("Company" or "Applicant")
- 2. Company Address:** 6425 West Grand River
Saranac, Michigan 48881
- 3. Project Address ("Project"):** 6425 West Grand River, Saranac, Michigan 48881
478 West Portland Road, Ionia, Michigan 48846
3896 West Grand River, Saranac, Michigan 48881
- 4. MBDP Incentive Type:** Performance Based Grant
- 5. Maximum Amount of MBDP Incentive:** Up to \$500,000 ("MBDP Incentive Award")
- 6. Base Employment Level** 411 The number of jobs currently maintained in Michigan by the Company based on data submitted by the Company to the MEDC reflecting the Company's statewide employment level in Michigan prior to the proposed project. The Base Employment Level, including identification of the Company data used to establish this level, shall be included in the final MBDP Incentive Award agreement ("Agreement") between the MSF and the Company.
- 7. Total Qualified New Job Creation:** 50 The minimum number of total Qualified New Jobs the Company shall be required to create in Michigan (above the Base Employment Level), in addition to satisfying other milestones if applicable, to be minimally eligible to receive the full amount of the MBDP Incentive Award. Each Qualified New Job must be performed for consideration by a Michigan resident (whose Michigan income taxes are withheld as required), and each Qualified New Job must be in excess of
(above Base Employment Level)

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the Base Employment Level. The final terms and conditions of the requirements for the minimum number of Qualified New Jobs that must be created, including provisions addressing disbursements of portions of the MBDP Incentive Award, shall be included in the final Agreement.

- a. **Start Date for Measurement of Creation of Qualified New Jobs:** November 26, 2012 (date of the accepted Offer Letter)
- 8. **Company Investment:** \$17,150,000 for new construction and machinery and equipment, *or any combination thereof, for the Project.*
- 9. **Qualified Investment:** \$2,000,000 The total minimum amount of the required Company Investment in Michigan related to the project, which at a minimum must include the following: installation of a sanitary sewer force main no later than March 31, 2016. The final terms and conditions of the Qualified Investment shall be included in the final Agreement.
- 10. **Municipality supporting the Project:** Lakewood Wastewater Authority
 - a. **Municipality Support.** One of the conditions of execution of the final Agreement is the requirement that the municipality shall have committed to: waive the sanitary sewer connection fee. The final terms and conditions demonstrating this support shall be included in the final Agreement.
- 11. **Disbursement Milestones:** The final terms and conditions of each of the disbursements of any portion of the MBDP Incentive Award shall be included in the final Agreement, including that before any disbursement is made to the Company, the Company must have maintained: (i) the Base Employment Level (exclusive of the number of Qualified New Jobs then created) and (ii) any Qualified New Jobs created for which disbursements by the MSF have been made, and must otherwise be in compliance with all terms and conditions of the final Agreement, and further shall include:
 - a. **Disbursement Milestone 1:** Up to \$150,000 Upon demonstrated creation of 15 Qualified New Jobs above the Base Employment Level and verification of final approval of municipality support by no later than March 31, 2014.
 - b. **Disbursement Milestone 2:** Up to \$150,000 Upon completion of Disbursement Milestone 1, and upon demonstrated creation of 15 additional Qualified New Jobs above the Base Employment Level, by no later than March 31, 2015.
 - c. **Disbursement Milestone 3:** Up to \$200,000 Upon completion of Disbursement Milestone 1 and Disbursement Milestone 2, and upon demonstrated creation of 20 additional Qualified New Jobs above the Base Employment Level and completion of the Qualified Investment, by no later than March 31, 2016.

12. Term of Agreement:

Execution of Agreement to March 31, 2018

13. Repayment Provisions:

Repayment provisions are required by law. The Repayment terms and conditions will be effective through the Term of the Agreement and shall be defined in the final Agreement. The final repayment provisions may require repayment of some or all of the disbursements made by the MSF, including if the Company moves 25% or more of their employees out of Michigan, if the Company fails to maintain the Base Employment Level in Michigan, if the Company fails to maintain the Qualified New Jobs incented by this Award.

14. Reporting Requirements:

Periodic reporting will be required with this program. The detailed information needed from the Company will be included in the final Agreement, but will include Project reporting for such things as: amount of proposed incentive, amount of actual incentive received by Company; amount of proposed and actual investment made by Company for Project; the committed number of new jobs and the actual number of new jobs created as a result of the Project; the educational attainment of the employees hired; the number of new patents, copyrights, or trademarks applied for and issued to the Company; the number of licensing agreements by the Company and the number of such licensing agreements entered into by the Company with Michigan based firms; and any products commercialized by the Company.

15. Public Announcements:

The Company shall not make, or cause, any announcement of the proposed MBDP Incentive Award parameters outlined in this letter before the date of approval by the MSF of the MBDP Incentive Award, unless prior authorized and coordinated with the MEDC.

Any final MBDP Incentive Award is contingent upon several factors, including: (i) submission by the Company of a completed application and all other documentation required under the MBDP (ii) satisfactory municipality support (iii) available MSF funding (iv) completion of financial review, business integrity review, required background checks, and other business and legal review and due diligence as required, and the results of which must be satisfactory the MEDC, the MSF, and as applicable, the Chief Compliance Officer, (v) approval of an award by the MSF, and (vi) execution of a final Agreement containing the established milestones, repayment terms, reporting requirements, and all other detailed terms and conditions, required by the MSF.

If the Company is interested in the MEDC pursuing a recommendation to the MSF for a possible MBDP Incentive Award for the Company along the above parameters, please sign and date this Term Sheet. If the MEDC does not receive the signed Term Sheet from the Company by January 31, 2013, the MEDC may not be able to proceed with any recommendation to the MSF.

Herbruck Poultry Ranch, Inc.

Acknowledged as received by:

By: DocuSigned by:
Mark Cebula
2B54A08F3F4E47A...
Printed Name: Mark Cebula
Its: CFO
Dated: 2/12/2013

By: DocuSigned by:
Stacy Bowerman
C0D238F5CD5E47D...
Printed Name: Stacy Bowerman
Its: Development Finance Manager
Dated: 2/12/2013