



MEMORANDUM

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

FROM: Mike Gietzen, Development Finance Manager

DATE: April 8, 2013

SUBJECT: Approval of Michigan Business Development Request for \$350,000 Performance-based Grant to:

Kay Manufacturing Company ("Applicant" or "Company")
602 State Street
Calumet City, Illinois 60409
www.kaymfg.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

Kay Manufacturing Company incorporated in 1946 provides value added precision machining services of forged material to domestic automotive subassemblies on a production basis. In recent years, Kay Manufacturing Company has sought new work through first and second tier automotive subassembly manufacturers. Kay Manufacturing Company operates out of a single 80,000 square foot facility in Calumet City, Illinois working three shifts a day. The Company's techniques, automation, and work experienced have produced over 5 million transmission components annually.

The Applicant has not received any incentives from the MSF previously.

Michigan Economic Development Corporation

300 North Washington Square | Lansing, MI 48913 | 888.522.0103 | MichiganAdvantage.org | michigan.org

PROJECT DESCRIPTION

The Applicant plans to move into a 120,000 square foot facility in St Joseph Township (3491 S. Lakeshore Drive, St. Joseph, MI 49085) to start production in the summer of 2013. The Company plans on creating 80 jobs and investing \$9,290,000. These jobs would manufacture forged material for the domestic automotive subassemblies facilities on a production basis. This is Kay Manufacturing Company's first Michigan operations.

- a) The Applicant is a "Qualified Business", as defined in MCL 125.2088r(9)(b), that will locate and operate in Michigan.
- b) The project will be located in the Charter Township of St. Joseph. The Charter Township of St. Joseph has offered a "staff, financial, or economic commitment to the project" in the form of property tax abatement under Public Act 198 of 1974 for a period of 12 years. The estimated value of the property tax abatement is \$321,000.
- c) The Applicant has demonstrated a need for the funding based on a competitive state and local incentive from Indiana. Indiana offered an incentive package which includes: real and personal property tax abatements, a regional development authority cash grant, refundable state payroll tax credits and a training grant. The total Indiana assistance offer exceeded \$2,500,000. .
- d) The Applicant plans to create 80 Qualified New Jobs above a statewide base employment level of 0.
- e) Pursuant to the program guidelines, the following was taken into consideration for the proposed project; the project involves very strong out-of-state competition from Indiana, the company plans to create jobs beginning immediately once supported from MSF, the project also has strong links to Michigan's automobile suppliers.

INCENTIVE OPPORTUNITY

This project involves the creation of 80 Qualified New Jobs and a capital investment of up to \$9,290,000 in the Charter Township of St. Joseph. The requested incentive amount from the MSF is \$350,000 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

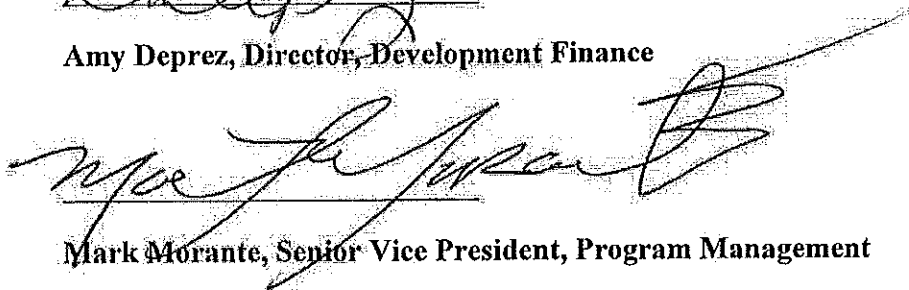
additional and other terms are not otherwise materially adverse to the MSF, to accommodate final signing of the Transaction Documents.

APPROVAL AUTHORITY – MBDP SUPPORT MEMO

Michigan Economic Development Corporation



Amy Deprez, Director, Development Finance

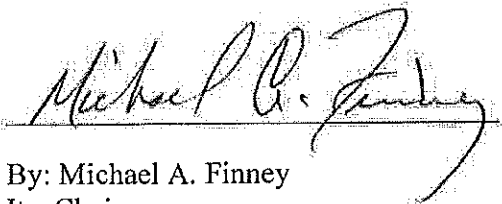


Mark Morante, Senior Vice President, Program Management

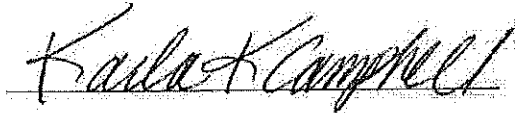
The Recommendation is approved subject to Available Funding and Completion of Due Diligence, and execution of all MBDP transaction documents, all in accordance with the MBDP and its guidelines:

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:

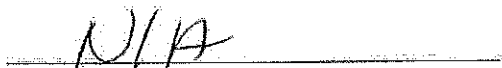
Michigan Strategic Fund



By: Michael A. Finney
Its: Chairman

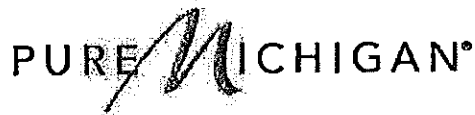


By: Karla K. Campbell
Its: Fund Manager



By: Andy Dillon, State Treasurer
Its: Director

Kay Manufacturing Company



**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: 4/3/2013

1. **Company Name:** Kay Manufacturing, Company ("Company" or "Applicant")

2. **Company Address:** 602 State Street
Cajumet City, Illinois 60409

3. **Project Address ("Project"):** 3491 S. Lakeshore
St. Joseph, Michigan 49085

4. **MBDP Incentive Type:** Performance Based Grant

5. **Maximum Amount of MBDP Incentive:** Up to \$350,000 ("MBDP Incentive Award")

6. **Base Employment Level** 0 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 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:** 80 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),
(above Base Employment Level)

and each Qualified New Job must be in excess of 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:** Date of Approval of MSF Award

- 8. **Company Investment:** \$9,290,000 for leasehold improvements, machinery & equipment, furniture & fixtures, computers, and special tooling or any combination thereof, for the Project.
- 9. **Municipality supporting the Project:** St. Joseph Charter Township

a. **Municipality Support.** One of the conditions of execution of the final Agreement is the requirement that the municipality shall have committed to provide: a property tax abatement related to the project. The final terms and conditions demonstrating this support shall be included in the final Agreement.

10. **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 \$110,000 Upon demonstrated creation of 25 Qualified New Jobs above the Base Employment Level and verification of final approval of municipality support by no later May 31, 2014.
- b. **Disbursement Milestone 2:** Up to \$130,000 Upon completion of Disbursement Milestone 1, and upon demonstrated creation of 30 (for a total of 55 Qualified New Jobs) above the Base Employment Level, by no later than May 31, 2015.
- c. **Disbursement Milestone 3:** Up to \$110,000 Upon completion of Disbursement Milestone 1 and Disbursement Milestone 2, and upon demonstrated creation of 25 (for a total of 80 Qualified New Jobs) above the Base Employment Level, by no later than May 31, 2016

11. Term of Agreement:

Execution of Agreement to May 31, 2018

12. 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.

13. 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.

14. 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 April 5, 2013, the MEDC may not be able to proceed with any recommendation to the MSF.

Kay Manufacturing Company

By: Brian Pelke

Printed Name: BRIAN PELKE

Its: PRESIDENT

Dated: 4/4/2013

Acknowledged as received by:

Michigan Economic Development Corporation

By: Michael Gietzen

Printed Name: Michael Gietzen

Its: Development Finance Manager

Dated: 4/4/2013