

FOR CONSIDERATION

December 16, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Canajoharie (Montgomery County) – Richardson Brands 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: Richardson Brands Company (“Richardson” or the “Company”)

ESD* Investment: A grant of up to \$500,000 to be used for a portion of the cost of the purchase 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: 101 Erie Boulevard, Canajoharie, Montgomery County

Proposed Project: Acquisition of a new boiler and machinery and equipment to maintain and ultimately grow production levels.

ESD Incentive Offer Accepted: May 11, 2009

Project Completion: December 2010

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	128
Current employment level:	160
Minimum employment on January 1, 2013:	143

Grantee Contact: Jamie Cecilia, Manager of Financial Planning & Reporting
 101 Erie Boulevard
 Canajoharie, NY 13317
 Phone: (518) 533-4212
 Fax: (518) 533-4213

Anticipated
 Appropriation
 Source:

Empire State Economic Developemnt Fund

ESD Project No.: W615

Project Team:	Origination	Jane Kulczycki
	Project Management	Glendon McLeary
	Affirmative Action	Denise Ross
	Finance	Ross Freeman
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Boiler Purchase & Installation	\$1,523,261
Machinery & Equipment	1,258,700
Electrical	38,400
Contract & Internal Labor	98,000
Ancillary Costs	<u>39,900</u>

Total Project Costs \$2,958,261

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$500,000	17%
National Grid	400,000	14%
NYSERDA*- Grant	398,180	13%
NYSOCR**- Grant	750,000	25%
Company Equity	<u>910,081</u>	<u>31%</u>

Total Project Financing \$2,958,261 100%

*New York State Energy Research and Development Authority

**New York State Office of Community Renewal

III. Project Description

A. Background

Richardson Brands Company, a subsidiary of Richardson Foods, Inc., founded in 1880, is a manufacturer of branded foods and confectionary products. The Richardson Foods, Inc., family also includes long-standing and segments-leading brands such as Richardson Mints, Beechies Gum, Gravy Master Sauce, Dryden & Palmer Rock Candy, and Bogdon Reception Sticks. The Company manufactures its products primarily from its 180,000-square-foot facility in Canajoharie, New York, resulting in annual production of over 8 million pounds of product. Richardson also operates a facility in Branford, Connecticut.

Richardson sells products to over 1,500 customers nationwide through a variety of channels, including retail, food service, promotional products, contract manufacturing/co-packing arrangements, and the Internet. Retail customers include Walmart, Big Lots, Kroger, Albertson's, and C&S Wholesale Grocers. In food service, Sysco is the largest customer, followed by Dot Foods and Kraft. In the promotional/imprints category, State Farm Insurance is the largest customer.

Richardson is striving to meet the growing demands, product quality standards, and changing packaging requirements of the marketplace. To meet these needs and grow the business, the Company had to make significant upgrades to its existing Canajoharie facility or relocate operations to Connecticut. In order to maintain operations in New York State, the Company had to acquire a new boiler to replace the source of steam that the Company lost with the departure of Beech-Nut from Canajoharie and purchase new production machinery and equipment. A significant investment was needed to proceed with the project in Canajoharie, but Richardson exhausted its limited company equity following the flood of 2006, when the Company sustained over \$8 million in losses.

To reduce the cost of the new boiler and production machinery and equipment and to induce the Company to maintain operations in New York State, in April 2009, ESD offered a \$500,000 capital grant. The Company accepted the offer in May 2009, pledging to retain 128 existing jobs and add 15 new jobs. Without ESD's assistance, the Company could have relocated to Connecticut and closed operations in New York. In December 2009, ESD also offered a \$1,697,000 convertible loan to assist with the cost of improvements to the facility to accommodate the relocation of Bodgon Reception Sticks, a Kansas City, Missouri-based candy line the Company acquired in 2009. This project is expected to create an additional 70 new jobs and will be presented to the Directors at a later date.

In 2006, ESD provided a \$750,000 flood recovery grant to Richardson to replace machinery and equipment damage by the flood. The grant was disbursed, and the project is closed.

B. The Project

Capital improvements included the acquisition of a new ultra-high-efficiency, low-emission gas-fired boiler and the purchase of new equipment and machinery including a metal detector, code dater, dry mixing and packing system, short run printer, a grinder, equipment for the drying room, a blister machine, a bagger and filler machine, individual mint equipment, chocolate

spray coating machine, and flow wrapper machine. Facility improvements included silo repair for the inverted syrup system and waste water system improvements. The project began in early 2009 and is expected to be completed by December 2010, and the Company has created 32 new jobs exceeding its employment commitment.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$500,000 capital grant (\$5,000) 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. 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 \$500,000 will be disbursed to the Grantee in two 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 \$2,433,180, and documentation of the employment of at least 128 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 50% of the grant (\$250,000) will be disbursed upon documentation of the employment of at least 143 Full-time Permanent Employees at the Project Location (Employment Increment of 15), 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 May 11, 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 \$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	128
A	B
Reporting Date	Employment Goals
February 1, 2012	128+X
February 1, 2013	128+X
February 1, 2014	128+X
February 1, 2015	128+X
February 1, 2016	128+X

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=15, and Employment Goals shall equal [128 + X = 143] 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.

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 maintain its employment level of 128, including retention of 128 jobs which were at risk of relocation to another state. In addition, the Company will create 15 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 Connecticut. 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 \$4,182,233;
- Fiscal cost to NYS government is estimated at \$500,000;
- Project cost to NYS government per direct job is \$4,711;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$2,794;
- Ratio of project fiscal benefits to costs to NYS government is 8.36:1;
- Fiscal benefits to all governments (state and local) are estimated at \$6,924,399;
- Fiscal cost to all governments is \$500,000;
- All government cost per direct job is \$4,711;
- All government cost per total job is \$2,794;
- The fiscal benefit to cost ratio for all governments is 13.85:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$36,928,527, or \$206,368 per job (direct and indirect);
- The economic benefit to cost ratio is 41.61:1;
- Project construction cost is \$1,561,661 which is expected to generate 20 direct job years and 8 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.69 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 2 years.

(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. The Company 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

December 16, 2010

Canajoharie (Montgomery County) – Richardson Brands 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 Richardson Brands 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 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 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 of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Richardson Brands Company 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 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 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 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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