

FOR CONSIDERATION

December 16, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Amherst (Erie County) – Packstar Group 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: Packstar Group, Inc. (“Packstar” or the “Company”)

ESD* Investment: A grant of up to \$250,000 to be used for a portion of the cost of the acquisition and installation 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: 215 John Glenn Drive, Amherst, Erie County

Proposed Project: Acquisition and installation of new machinery and equipment associated with an expansion project.

ESD Incentive Offer Accepted: October 9, 2007

Project Completion: June 2012

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	65
Current employment level:	89
Minimum employment on January 1, 2012:	105

Grantee Contact: Mr. Andrew Sharp, CEO
 215 John Glenn Drive
 Amherst, NY 14228
 Phone: 716-853-1688
 Fax: 716-853-0974

Anticipated
 Appropriation
 Source:

Empire State Economic Development Fund

ESD Project No.: V822

Project Team:	Origination	Will Welisevich
	Project Management	Jean Bly
	Affirmative Action	Helen Daniels
	Finance	Jonevan Hornsby
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Machinery & Equipment	\$2,629,500
Installation/Electrical Upgrades	<u>38,500</u>
Total Project Costs	<u>\$2,668,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$ 250,000	9%	
Five Star Bank Loan	129,600	5%	4.75%/5yrs/co-equal 1 st on M&E
Five Star Bank Loan	267,000	10%	5.55%/5yrs/co-equal 1 st on M&E
Five Star Bank Loan**	794,950	30%	5.26%/5yrs/co-equal 1 st on M&E
Five Star Bank Loan***	660,351	25%	To be determined at closing
Company Equity	<u>566,099</u>	<u>21%</u>	
Total Project Financing	<u>\$2,668,000</u>	<u>100%</u>	

**Portion of \$2,000,000 refinancing package.

***Commitment received; funds will be used for later purchase of M&E.

III. Project Description

A. Background

Packstar, established in 1997, is a privately-held company that specializes in the design and manufacture of flexible packaging/labeling materials used primarily in the food and beverage; pharmaceuticals; cosmetics and other personal care markets. The Company, operating from its 55,000-square-foot administration, manufacturing and distribution facility in Amherst, utilizes polyvinyl chloride and polyethylene terephthalate glycol to create high-quality seamed, seamless and pre-form shrink labeling products at a competitive price. Company products, including tamper-resistant clear shrink films; full-body and dual sleeves; pre-form bands; and r-seal bags, are produced to exact customer specifications utilizing various colors, prints and logos. The specialized flexible packaging is distributed to the customer, who utilizes application equipment to adhere the packaging to the product. Packstar partners with an affiliated company, Tripack (Milford, OH), a manufacturer of automated shrink seal application systems, to provide customers with a one-stop solution for all application equipment and packing film needs.

Packstar's frequent interaction with a global contingent of suppliers allows it to stay on the cutting edge of advancements in materials and converting processes. Packstar sells to nationally-known product manufacturers including Procter & Gamble – Gillette (Cincinnati, OH); Colgate-Palmolive Company (New York, NY); and Maybelline (New York, NY). Major competitors include American FujiSeal (Osaka, Japan); Printpack Inc. (Atlanta, GA); and Fort Dearborn Company (Elk Grove Village, IL).

In mid-2007, Packstar advised ESD that it required a significant capital investment in more efficient equipment to maintain current and projected production levels. The Company was considering making the capital investment in Amherst or relocating and expanding operations in either Ohio, in close proximity to its affiliated company, Tripack, or in Virginia, in close proximity to a company that Packstar is working with on a research and development venture. Packstar could easily relocate as its customers are located throughout the United States. Therefore, the Company sought ESD assistance, and on October 9, 2007, accepted ESD's offer of a \$250,000 grant resulting in the Company's decision to invest in new machinery and equipment at its Amherst facility. As a result, 65 jobs will be retained and 40 new jobs will be created by January 1, 2012. Without this grant, these jobs would likely have been relocated out-of-state.

B. The Project

The \$2.668 million project involves the acquisition and installation of new machinery and equipment, including new printing presses, film processing and handling equipment, and related installation and electrical upgrades, allowing Packstar to manufacture products more efficiently, increasing production volume and workflow. The Company has already expended \$1 million for new machinery and equipment, with the remainder of the machinery and equipment purchase and installation scheduled for completion by June 2012. Packstar has already created 24 jobs, for a current total of 89 employees.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$250,000 grant (\$2,500) upon execution of the grant disbursement agreement. In addition, at the time of closing, 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 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 \$250,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$125,000) will be disbursed to the Grantee upon documentation of \$1 million in machinery and equipment project costs and documentation of the employment of at least 65 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 (\$125,000) will be disbursed to the Grantee upon documentation of an additional investment of \$1 million in machinery and equipment (aggregate total \$2 million), and employment of at least 105 Full-time Permanent Employees at the Project Location (Employment Increment of 40), 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. Expenditures must be incurred on or after October 9, 2007, to be considered eligible project costs. All disbursements must be requested by June 30, 2012.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$250,000, 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	65
A	B
Reporting Date	Employment Goals
February 1, 2012	65+X
February 1, 2013	65+X
February 1, 2014	65+X

X = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section 5(a) above (i.e. X=40, and Employment Goals shall equal [65 + X = 105] 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 65 jobs and create 40 new jobs by January 1, 2012.

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

The Company was considered relocating its operations to Ohio or Virginia. 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 \$2,391,160;
- Fiscal cost to NYS government is estimated at \$250,000;
- Project cost to NYS government per direct job is \$4,122;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,696;
- Ratio of project fiscal benefits to costs to NYS government is 9.56:1;
- Fiscal benefits to all governments (state and local) are estimated at \$4,045,636;
- Fiscal cost to all governments is \$250,000;
- All government cost per direct job is \$4,122;
- All government cost per total job is \$1,696;
- The fiscal benefit to cost ratio for all governments is 16.18:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$16,142,326, or \$109,503 per job (direct and indirect);
- The economic benefit to cost ratio is 64.57:1;
- Project construction cost is \$38,500 which is expected to generate less than 1 direct job year and less than 1 indirect job year of employment;
- For every permanent direct job generated by this project, an additional 1.43 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

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. Packstar 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

Amherst (Erie County) – Packstar Group 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 Packstar Group 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 Operating 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 Operating 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, President and Chief Operating Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Packstar Group, Inc. a grant for a total amount not to exceed Two Hundred and Fifty Thousand Dollars (\$250,000) 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 Operating 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 Operating 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 Operating 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.

* * *

**Project Summary
Benefit-Cost Evaluation¹**

Packstar Group, Inc.

Initial Jobs: 65
New Jobs: 40 over 5 years

Construction Job Years (Direct): Less than 1
Construction Job Years (Indirect): Less than 1

Evaluation Statistics	Project Result NYS Govt.	NYS Govt. Benchmarks for ESD Projects²	Project Results State & Local Governments	State & Local Government Benchmarks for ESD Projects
Fiscal Costs³	\$250,000	\$ 794,250	\$250,000	\$ 1,020,500
Fiscal Benefits⁴	\$2,391,160	\$ 2,085,600	\$4,045,636	\$ 4,271,980
Fiscal Cost /Direct Job	\$4,122	\$ 3,000	\$4,122	\$ 4,110
Fiscal Cost/Total Jobs	\$1,696	\$ 1,424	\$1,696	\$ 1,964
Fiscal B/C Ratio	9.56	7.00	16.18	10.60
	Project Results	Benchmarks for ESD Projects		
Economic Benefits⁵	\$16,142,326	\$ 119,468,000		
Econ. Benefits/Total Jobs	\$109,503	\$ 147,600		
Economic B/C Ratio	64.57	50.00		

¹ Dollar values are present value calculated over a 7-year period. Separate evaluations are made and reported for New York State government assistance alone and for State and Local government.

² The current project evaluation results (both fiscal and economic) are compared to performance measure benchmarks based on results of a sample of ESD non-retail projects.

³ Fiscal cost includes the value of grants, loans and associated default risks, and discretionary subsidies (such as tax exemptions or abatements on sales, property, and interest income).

⁴ Fiscal benefits are the loan repayments and tax revenues to New York State and Local governments generated by project activity. This includes estimated taxes on personal incomes from project direct and indirect employment, corporate and business incomes, excise and user taxes, property taxes, and other taxes.

⁵ Economic benefits are estimated project benefits measuring fiscal flows to government plus net resident disposable income from project direct and indirect employment net of transfers, without adjusting for individual income earners' opportunity cost of employment.