

FOR CONSIDERATION

January 21, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Skaneateles Falls (Onondaga County) – Welch Allyn MAP 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

General Project Plan

I. Project Summary

Grantee: Welch Allyn, Inc.

ESD* Investment: A grant of up to \$300,000 to be used for a portion of plant improvement and machinery and equipment costs.

* The New York State Urban Development Corporation doing business as the Empire State Development Corporation (“ESD” or the “Corporation”)

Project Locations: 4341 State Street Road, Skaneateles Falls, Onondaga County *
4619 Jordan Road, Skaneateles Falls, Onondaga County

*Project activity site; other is job-retention site

NYS Empire Zone
(or equivalent): Onondaga County Empire Zone

Proposed Project: Plant improvements and machinery and equipment acquisition essential to maintaining and improving competitiveness in markets served.

ESD Incentive Offer Accepted: January 4, 2008

Project Completion: October 2009

Number of Employees at Project Locations:

Initial employment at time of ESD Incentive Offer:	1125
Current employment level:	1191
Minimum employment on January 1, 2012:	1300

Grantee Contact: Christopher Bailey, Manager of Tax and Risk
4341 State Street Road
Skaneateles, NY 13153-0220
Phone: 315-685-4564
Fax: 315-685-3678

Anticipated
Appropriation
Source:

Empire State Economic Development Fund (“EDF”)

ESD Project No.: V950

Project Team:	Origination	James Fayle
	Project Management	Meg Paskins
	Environmental	Soo Kang
	Affirmative Action	Helen Daniels

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Plant Improvements	3,000,000
Machinery and Equipment	<u>750,000</u>

Total Project Costs \$3,750,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	300,000	8%
Company Equity	<u>3,450,000</u>	<u>92%</u>

Total Project Financing \$3,750,000 100%

III. Project Description

A. Background

Manufacturing is the most significant wealth-creating and value-adding sector of the NYS economy outside of the New York City metropolitan area. The purpose of the ESD’s Manufacturing Assistance Program (“MAP”) is to encourage New York State manufacturers to invest in projects

that substantially improve the competitiveness and productivity of their operations, thus increasing their long-term viability and ensuring the health of the state's manufacturing economy.

Welch Allyn, Inc. ("WA" or the "Company") was founded in 1915 by Dr. F.A. Welch and William Allyn for the manufacture of medical diagnostic instruments. It has since grown to be one of the world's leading manufacturers of innovative medical diagnostic equipment and flexible patient monitoring systems. The Company employs over 2,300 people with numerous manufacturing, sales, and distribution facilities located throughout the world. WA is headquartered in Skaneateles Falls, New York where it operates two plants located two miles apart which employ a total of 1,191 workers. WA's State Street Road facility (employing 790) has 200,000 square feet of operating space, and its Jordan Road facility (employing 401) has 157,000 square feet of operating space. WA is an operating subsidiary of Welch Allyn Holdings, Inc.

WA's primary challenge in the market place is remaining competitive against producers manufacturing in low cost areas worldwide. WA focuses heavily on increasing operational efficiencies by reducing costs and rationalizing production to low cost, high quality centers so it can continue to achieve its goal of 10+% annual revenue growth. With this aim in mind, management made the decision to further expand operations in 2007. In addition to considering its State Street Road facility, it also considered facilities in Mexico and the Netherlands which were more cost-competitive. It approached ESD late in 2007 for financial assistance with its expansion project and ESD responded in December 2007 with an offer (accepted by WA in January 2008) which included a \$1.2 million capital grant from the JOBS Now Program and a \$300,000 Manufacturing Assistance Program ("MAP") grant from EDF. This offer was an important factor in choosing Skaneateles Falls for the project which will result in the creation of 175 new jobs, bringing WA's employment at both Skaneateles Falls locations to 1,300 by 2012.

The expansion project involves expanding the State Street Road facility by an additional 120,000 square feet, bringing total square footage to 320,000 square feet, and renovating approximately 54,000 of existing square feet at an estimated cost of \$31 million. Embedded in these costs is approximately \$3.75 million in loading dock and plant floor reconfiguration and machinery and equipment expenditures that help improve inventory turns and on-time deliveries as well as increase goods produced per person per day. These outcomes are considered integral to WA's ongoing efforts to maintain and improve its competitive position in markets served. The \$3.75 million project, the subject of these materials, was completed in October 2009. The entire expansion project is expected to be completed by March/April 2010 at which time the \$1.2 million JOBS Now 100 grant will be presented to the ESD Board for approval.

ESD has assisted WA in the past with 4 grants totaling \$1,210,000. The most recent grant of \$500,000 was approved by the ESD Directors in May 2007 for the purchase and installation of machinery and equipment and renovations associated with the expansion of its probe cover and blood pressure cuff products lines. WA has met all previous employment goals.

B. The Project

The MAP project, part of WA's \$31 million expansion effort, was completed in October 2009 and entailed \$3,750,000 in plant improvement and machinery and equipment costs. Plant

improvements included reconfiguration of loading docks and a re-organization of the manufacturing floor so as to compress current production operations, allowing for future production expansions within a more efficient floor plan and workflow. Machinery and equipment costs included inventory racks, loading dock equipment, conveyor equipment, a case picker and a secured entrance system. Employment has risen to 1,191 from 1,125 in 2007.

As an exception to policy, ESD has not conducted a financial review of the Grantee. Instead, the Grantee has provided a confidential summary of certain financial information, including sales, assets and net worth. ESD has also reviewed a Dun and Bradstreet report on the Company, which includes a composite credit appraisal of "fair." This information is not sufficient to enable ESD to opine on the Grantee's financial health.

C. MAP Project Findings and Outcomes

This project qualifies as a Manufacturing Assistance Program project because the Company i) exports at least 30% of its production beyond its region or provides at least 30% of its production to a manufacturer that exports beyond the Company's region; and ii) is making a substantial investment of at least \$1,000,000 in order to improve its competitiveness and productivity and thereby enhance its long-term viability in the State of New York.

The project is expected to produce the following measurable outcomes for the Company:

Primary Outcome(s): **By January 2008** - demonstrate baseline measurements for current inventory turns to be 6.5 and Post Goods Issued per person per day to be \$2,062 ; **By January 2010** - Demonstrate future state of inventory turns to be at least 7.5 and Post Goods Issued per person per day to be at least \$2,390.

Secondary Outcome(s): 34% improvement in on-time deliveries.

Total estimated value of competitiveness and project outcomes: \$7,621,494 annually

D. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$300,000 capital grant (\$3,000) upon execution of the grant disbursement agreement. In addition, at the time of disbursement, 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. Welch Allyn Holdings, Inc. will guarantee the grant repayment obligation of its subsidiary, Welch Allyn, Inc., in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.

4. The Company or the Company's shareholders will contribute at least 10% in equity to the project. Equity is defined as any non-debt source of capital, and should be auditable through Company financial statements or Company accounts, if so requested by ESD.
5. 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 Locations 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 Locations 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.
6. Up to \$300,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$150,000) will be disbursed upon documentation of \$1,600,000 in eligible project costs, documentation of the employment of at least 1,125 Full-time Permanent Employees at the Project Locations, and demonstration by January 2008 of the 4th quarter 2007 baseline measurements of 6.5 inventory turns and Post Goods Issued per person per day to be \$2,062, as documented by production and shipping reports certified by the plant manager and confirmed by an independent Certified Public Accountant, assuming that all project approvals have been completed and funds are available and provided Grantee is otherwise in compliance with program requirements;
 - b) a Second Disbursement of an amount equal to 50% of the grant (\$150,000) will be disbursed upon documentation of an additional \$2,000,000 in eligible project costs (aggregate total of \$3,600,000), documentation of the employment of at least 1,125 Full-time Permanent Employees at the Project Locations, and demonstration by January 2010 of inventory turns of at least 7.5 and Post Goods Issued per person per day to be at least \$2,390, as documented by production and shipping reports certified by the plant manager and confirmed by an independent Certified Public Accountant, assuming that all project approvals have been completed and funds are available and 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 January 4, 2008 to be considered eligible project costs.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$300,000, 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.

8. 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 ESDC, Grantee shall be obligated to repay to ESDC 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	1,125
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A	B
Date	Employment Goals
February 1, 2011	1,125
February 1, 2012	1,300
February 1, 2013	1,300
February 1, 2014	1,300

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 WA’s expansion project, the Company will make significant investments in its State Street Road manufacturing facility, thereby ensuring its continued viability. In

addition, the MAP portion of the expansion project will help make the Company more competitive, and thus increase the economic viability of the state's manufacturing industry. The expansion project will result in the creation of 175 new jobs, bringing employment at both Skaneateles Falls' locations to 1,300.

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

Without ESD assistance, WA would likely make further investments in other out-of-state facilities leading the way for an eventual phase down of New York State production.

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 \$10,066,446;
- Fiscal cost to NYS government is estimated at \$1,500,000;
- Project cost to NYS government per direct job is \$11,111;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$5,742;
- Ratio of project fiscal benefits to costs to NYS government is 6.71:1;
- Fiscal benefits to all governments (state and local) are estimated at \$17,107,445;
- Fiscal cost to all governments is \$1,500,000;
- All government cost per direct job is \$11,111;
- All government cost per total job is \$5,742;
- The fiscal benefit to cost ratio for all governments is 11.40:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$100,142,956, or \$383,322 per job (direct and indirect);
- The economic benefit to cost ratio is 66.76:1;
- Project construction cost is \$30,000,000 which is expected to generate 301 direct job years and 194 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.94 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

The Town of Skaneateles 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 ("SEQRA") and the implementing regulations of the New York State Department of Environmental Conservation. This review found the project to be a Type I Action, which would not

have a significant effect on the environment. The lead agency issued a Negative Declaration on May 20, 2008. ESD staff reviewed the Negative Declaration and 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. Welch Allyn, 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
Cost-Benefit Analysis

January 21, 2010

Skaneateles Falls (Onondaga County) – Welch Allyn MAP 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 Welch Allyn MAP 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-Designate 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-Designate 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-Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Welch Allyn, Inc. a grant for a total amount not to exceed Three Hundred Thousand Dollars (\$300,000) 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-Designate 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-Designate 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-Designate 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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January 21, 2010

Skaneateles Falls (Onondaga County) – Welch Allyn MAP Capital – Empire State
Economic Development Fund – General Development Financing (Capital Grant) –
Determination of No Significant Effect on the Environment

RESOLVED, that based on the material submitted to the Directors with respect to the Welch Allyn MAP 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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