

FOR CONSIDERATION

July 13, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Sanborn (Niagara County) – United Biochemicals 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: Farmis, Inc. d/b/a United Biochemicals (“United Biochemicals” or the “Company”)

ESD* Investment: A grant of up to \$150,000 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: 6351 Inducon Drive East, Sanborn, Niagara County

Proposed Project: Building renovations, utility and infrastructure improvements and the acquisition and installation of new machinery and equipment to reconfigure process flow.

ESD Incentive Offer Accepted: August 16, 2010

Project Completion: July 2011

Number of Employees at Project Location:

Initial employment (at time of ESD Incentive Offer):	31
Current employment level:	31
Minimum employment on January 1, 2014:	53

Grantee Contact: Fayyaz Hussain, President
6351 Inducon Drive East
Sanborn, NY 14132
Phone: (716) 731-5161
Fax: (716) 731-5163

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: X135

Project Team:	Origination	Ray Witzleben
	Project Management	Jean Bly
	Affirmative Action	Helen Daniels
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Building Renovations	\$ 300,000
Utilities & Infrastructure	150,000
Machinery & Equipment	335,000
Soft Costs	60,000
Working Capital	<u>225,000</u>

Total Project Costs \$1,070,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$ 150,000	14%	
M&T Bank-SBA 7(a) Loan	800,000	75%	Variable with 2.5% base/7yrs/1 st on \$485,000 of M&E, 2 nd on all company assets
Company Equity	<u>120,000</u>	<u>11%</u>	
Total Project Financing	<u>\$1,070,000</u>	<u>100%</u>	

III. Project Description

A. Background

United Biochemicals, formed in 1996, manufactures, tests, and distributes a limited number of high-quality, value-added products including bio-chemicals, laboratory reagents and solutions for the biotechnology industry. Company products consist of specialty biochemicals, biological buffers and amino acids, which are components of culture media used in the bio-technical and bio-medical research industries. United Biochemicals also sells specialized analytical laboratory services including Endotoxin, DNase and RNase testing. Primary customers include distributors of laboratory research products, manufacturers of cell culture media and supplies, biotechnology and pharmaceutical companies, and research institutes. Primary customers include Life Technologies (Grand Island, NY); Sigma Chemical Company (St. Louis, MO); and HyClone (Logan, UT). Major competitors include Amresco Corp. (Solon, OH); Mediatech Corp. (Manassas, VA); and Research Organics (Cleveland, OH).

In 2004, United Biochemicals built a new state-of-the-art facility for the sole purpose of producing antibiotic products. Sales increased from \$6.4 million in 2005 to \$7.6 million in 2006. Despite its current success, United Biochemicals faces strong competition from companies located outside of New York State. Although the Company has developed a sound relationship with a small number of key customers, it needs to increase its customer base in order to remain competitive.

In 2010, United Biochemicals advised ESD that it completed a preliminary assessment to identify opportunities to increase productivity and expand its market share by expanding its liquid and powder repack capabilities. However, the Company lacked sufficient resources to complete the capital investment involving the reconfiguration of its existing manufacturing facility and the acquisition of new machinery and equipment. Additionally, the Company was considering relocating and expanding certain operations to Florida. In July 2010, ESD provided United Biochemicals with a \$150,000 capital grant incentive proposal. The Company accepted the offer and decided to proceed with the capital investment in New York. As a result, 31 jobs will be maintained and 22 new jobs will be created by January 1, 2014. Without ESD assistance, the 15 of the 31 jobs were at risk, and the 22 new jobs would not be created.

In September 2001, Job Development Authority (“JDA”) Directors approved a \$336,000 capital loan to assist the Company with a building expansion. The JDA loan, which closed in June 2003, was instrumental in allowing United Biochemical to expand from 3 jobs to the current 31 jobs. Additionally, ESD Directors approved a \$25,000 Industrial Effectiveness Program grant in November 2007, which assisted with the selection and implementation of a new business system with a focus on purchasing and inventory transaction, production scheduling and new product development. The Company is in compliance with the terms of the previous loan and grant.

B. The Project

The project involves interior renovations and utility and infrastructure improvements to the existing 43,000-square-foot facility, including retrofitting of existing space, expanded and segregated weighting, formulation, filling rooms, labeling rooms, HVAC upgrades and UPS purified water systems upgrades; the acquisition and installation of machinery and equipment including stainless steel tanks, liquid dispensing machines, clean room laminar flow benches, fluid transfer pumps and in-line testing apparatus; soft costs and working capital. The project is scheduled to be fully operational in August 2011 and is expected to address the process flow, segregation, environmental and industry compliance upgrades.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$150,000 capital grant (\$1,500) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will be obligated to advise ESD of any material or 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 \$150,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$75,000) upon completion of the project substantially as described in these materials; documentation of building renovations, utilities and infrastructure improvements, machinery and equipment and soft costs of approximately \$845,000; and documentation of the

- employment of at least 31 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 25% of the grant (\$37,500) will be disbursed upon documentation of the employment of at least 42 Full-time Permanent Employees at the Project Location (Employment Increment of 11), provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$37,500) will be disbursed upon documentation of the employment of at least 53 Full-time Permanent Employees at the Project Location (Employment Increment of 11), 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. Expenditures must be incurred on or after August 16, 2010, to be considered eligible project costs. All disbursements must be requested by April 1, 2014.

- 6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$150,000, 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	31
---------------------	----

A	B
Reporting Date	Employment Goals
February 1, 2012	31+X+Y
February 1, 2013	31+X+Y
February 1, 2014	31+X+Y
February 1, 2015	31+X+Y
February 1, 2016	31+X+Y

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=11, and Employment Goals shall equal [31 + X = 42] 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.

Y = Grantee's Employment Increment that will be the basis of the Third Disbursement of the Grant as described in section C.5 above (i.e. Y=11, and Employment Goals shall equal [31 + X + Y = 53] if the Third Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Third Disbursement has not yet been made then Y=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 31 jobs and will create 22 new jobs by January 1, 2014.

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

Without ESD's assistance, United Biochemicals, an important supplier to the growing western New York life sciences sector, would not have been able to undertake the project, placing its future at immediate risk.

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 \$1,756,079;
- Fiscal cost to NYS government is estimated at \$150,000;
- Project cost to NYS government per direct job is \$6,335;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,519;
- Ratio of project fiscal benefits to costs to NYS government is 11.71:1;
- Fiscal benefits to all governments (state and local) are estimated at \$2,973,807;
- Fiscal cost to all governments is \$150,000;
- All government cost per direct job is \$6,335;
- All government cost per total job is \$1,591;
- The fiscal benefit to cost ratio for all governments is 19.83:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$12,911,311, or \$136,908 per job (direct and indirect);
- The economic benefit to cost ratio is 86.08:1;
- Project construction cost is \$510,000, which is expected to generate five direct job years and four indirect job years of employment;
- For every permanent direct job generated by this project, an additional 2.99 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is two 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. Farmis, 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

July 13, 2011

Sanborn (Niagara County) – United Biochemicals 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 United Biochemicals 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 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 President 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 President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Farmis, Inc. d/b/a United Biochemicals a grant for a total amount not to exceed One Hundred Fifty Thousand Dollars (\$150,000) 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 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 President 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 President and Chief Executive Officer 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.

* * *

