

FOR CONSIDERATION

June 28, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Clyde (Wayne County) – Parker Hannifin 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: Parker Hannifin Corporation (“Parker” or the “Company”)

ESD* Investment: A grant of up to \$750,000 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: 124 Columbia Street, Clyde, Wayne County

Proposed Project: Renovate manufacturing facility and purchase new manufacturing machinery and equipment.

ESD Incentive Offer Accepted: August 27, 2008 (initial offer) September 29, 2008 (revised offer)

Project Completion: August 2013

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	215
Current employment level:	255
Minimum employment through January 1, 2014:	295

Grantee Contact: Jason E. Lance, Tax Analyst
6035 Parker Blvd
Cleveland, Ohio 44124
Phone: (216) 896-2789
Fax: (216) 896-4039

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: W433

Project Team:	Origination	Kevin Hurley
	Project Management	Beverly Bobb
	Affirmative Action	Helen Daniels
	Finance	Ross Freeman
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Construction Cost	\$1,600,000
Building Renovation	925,000
Machinery and Equipment	<u>6,780,000</u>
Total Project Costs	<u>\$9,305,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$750,000	8%
Company Equity	<u>8,555,000</u>	<u>92%</u>
Total Project Financing	<u>\$9,305,000</u>	<u>100%</u>

III. Project Description

A. Background

Incorporated in 1938, Parker Hannifin Corporation, a publicly-traded company, is the world's

leading diversified manufacturer of motion and control technologies and systems providing precision-engineered solutions for a wide variety of commercial, mobile, industrial and aerospace markets. Parker started out as an Ohio-based company operating under the name Parker Appliance Company developing pneumatic braking systems for trucks. The Company expanded its products to include couplings and valves used in a variety of applications including aerospace. Revenue increased for Parker during World War II when the Company began supplying war aircrafts with component parts. After the war ended Parker continued to diversify its products and grew both organically and through acquisitions. Today, the Company consists of over 80 divisions in 54 countries with annual sales exceeding \$10 billion.

Parker's Gas Turbine Fuel System Division ("GTFSD"), located in Clyde, New York, manufactures fuel injector nozzles for jet engines used in commercial and military aerospace applications. Approximately 95% of the Clyde facility products are sold to General Electric ("GE"). Other customers include Rolls Royce, Honeywell and the United States military. Parker's major competitors for the products manufactured in Clyde include Woodward Governor and Goodrich.

GTFSD has won a number of contracts for new products in recent years including an award from GE to supply fuel nozzles for its next generation GENx turbine engine that will be offered as one of the power options on the new Boeing 787 Dreamliner Aircraft currently in development. In order to accommodate the increased demand associated with this new project, the aging facility in Clyde, must be rehabilitated, and the company will need to invest in new production machinery, equipment and employees.

Parker had identified existing properties in Mentor, Ohio, and Mt. Holly, South Carolina, to accommodate the demands of their new project. Without ESD's financial assistance, the Company would have likely relocated the Clyde facility to their corporate headquarters in Mentor, Ohio. To encourage the Company to proceed with the project in New York State and to reduce the cost, ESD provided an incentive offer of \$750,000 to the Company, which was accepted on September 29, 2008.

As a result the of the project, the Company will be able to expand its Clyde facility, retain 215 existing full time employees and create 80 new full time jobs.

B. The Project

Parker Hannifin plans to invest \$9.3 million to modernization and rehabilitation their Gas Turbine Fuel Systems Division located in Clyde, New York. The facility will be reconfigured and remodeled to accommodate new production machinery and testing equipment to support the demands associated with the new contract with GE. The project has been divided into five phases. Each phase incorporates building renovations and the purchase of production equipment, new manufacturing machinery, and office equipment. The entire project is scheduled to be completed in 2013. In addition to the rehabilitation of the facility, Parker will need to expand its production staff. Parker currently has 255 employees at the project location and plans to hire an additional 40 employees by January 2012.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$750,000 capital grant (\$7,500) 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 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 \$750,000 will be disbursed to the Grantee in five installments as follows:
 - a) an Initial Disbursement of an amount equal to 20% of the grant (\$150,000) upon completion of the first phase of the project substantially as described in these materials, documentation of the employment of at least 215 Full-time Permanent Employees at the Project Location, and project costs totaling \$3,025,000, assuming that all project approvals have been completed and funds are available;
 - b) a Second Disbursement of an amount equal to 20% of the grant (\$150,000) will be disbursed upon completion of the second phase of the project as described in these materials, documentation of the employment of at least 255 Full-time Permanent Employees at the Project Location (Employment Increment of 40), and submission of documentation verifying additional project expenditures of approximately \$2,255,000 (\$5,280,000 cumulatively) provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 20% of the grant (\$150,000) will be disbursed upon completion of the third phase of the project as described in the materials, documentation of the employment of at least 295 Full-time Permanent

Employees at the Project Location (Employment Increment of 40), and submission of documentation verifying additional project expenditures of approximately \$1,225,000 (\$6,505,000 cumulatively) provided Grantee is otherwise in compliance with program requirements.

- d) a Fourth Disbursement of an amount equal to 20% of the grant (\$150,000) will be disbursed upon completion of the fourth phase of the project as described in the materials, documentation of the employment of at least 295 Full-time Permanent Employees at the Project Location, and submission of documentation verifying additional project expenditures of approximately \$1,350,000 (\$7,855,000 cumulatively), provided Grantee is otherwise in compliance with program requirements.
- e) a Fifth Disbursement of an amount equal to 20% of the grant (\$150,000) will be disbursed upon completion of the fifth phase of the project as described in the materials, documentation of the employment of at least 295 Full-time Permanent Employees at the Project Location, and submission of documentation verifying additional project expenditures of approximately \$1,450,000 (\$9,305,000 cumulatively), 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 September 29, 2008, to be considered eligible project costs. All disbursements must be requested by April 1, 2012.

- 6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$750,000, 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	215
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A	B
Reporting Date	Employment Goals
February 1, 2012	215+X+Y
February 1, 2013	215+X+Y
February 1, 2014	215+X+Y
February 1, 2015	215+X+Y
February 1, 2016	215+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=40, and Employment Goals shall equal $[215 + X = 255]$ 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=40, and Employment Goals shall equal $[215 + X + Y = 295]$ 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.

The basis of the Fourth and Fifth Disbursements will be the Grantee's Employment of at least 295 Full-time Employees as described in section C.5 above.

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 215 and create 80 new jobs.

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

Without ESD assistance, this project would likely have been relocated to an existing facility in Ohio or South Carolina. 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 \$12,337,790;
- Fiscal cost to NYS government is estimated at \$750,000;
- Project cost to NYS government per direct job is \$3,525;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,867;
- Ratio of project fiscal benefits to costs to NYS government is 16.45:1;
- Fiscal benefits to all governments (state and local) are estimated at \$20,826,424;
- Fiscal cost to all governments is \$750,000;
- All government cost per direct job is \$3,525;
- All government cost per total job is \$1,867;
- The fiscal benefit to cost ratio for all governments is 27.77:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$119,257,789 or \$296,928 per job (direct and indirect);
- The economic benefit to cost ratio is 159.01:1;
- Project construction cost is \$1,003,807 which is expected to generate 9 direct job years and 7 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.89 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. Parker Hannifin Corp. 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

June 28, 2011

Clyde (Wayne County) – Parker Hannifin 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 Parker Hannifin 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 Parker Hannifin Corporation a grant for a total amount not to exceed Seven Hundred Fifty Thousand Dollars (\$750,000) 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.

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