

FOR CONSIDERATION

March 26, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Rochester (Monroe County) – Zeller Corporation 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: Zeller Corporation

ESD* Investment: A grant of up to \$350,000 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: 1000 University Avenue, Rochester, Monroe County

NYS Empire Zone
(or equivalent): City of Rochester Empire Zone

Proposed Project: Renovations and purchase of equipment in connection with relocation of headquarters, manufacturing and warehouse facility

ESD Incentive Offer Accepted: April 16, 2008

Project Completion: December 2008

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer: 63
 Current employment level: 81
 Minimum employment on January 1, 2012: 113*

*New employees cannot be transferred from other NYS locations

Grantee Contact: Gary Haseley, CEO
 1000 University Avenue
 Rochester, NY 14607
 Phone: (585) 254-8840
 Fax: (585) 254-0982

Anticipated
 Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: W151

Project Team: Origination Kevin Hurley
 Project Management Edward Muszynski
 Affirmative Action Helen Daniels
 Environmental Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Building Renovations	\$2,000,000
Furnishings & Fixtures	500,000
Machinery & Equipment	300,000
Soft Costs	200,000
Training	<u>250,000</u>

Total Project Costs \$3,250,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$350,000	10.8%	
City of Rochester Loan-to-Grant	200,000	6.1%	Prime/5 yrs/unsecured
City of Rochester Pre-development Grant	25,000	1.0%	
Monroe County Loan	50,000	1.5%	Prime/2 yrs/ 2 nd on M&E
Monroe County Loan-to-Grant	50,000	1.5%	Prime-2%/3 yrs/2 nd on RE
M&T Bank	1,500,000	46.1%	Prime/5 yrs/1 st on RE
Genesee Regional Bank	650,000	20.0%	4.5%/7 yrs/1 st on M&E
Company Equity	<u>425,000</u>	<u>13.0%</u>	
Total Project Financing	<u>\$3,250,000</u>	<u>100.0%</u>	

III. Project Description

A. Background

Founded in 1961, Zeller has evolved into a diverse family of companies providing electrical components and manufactured solutions. It serves various industry sectors, including automation and controls, machine vision inspection, motion control and process control. The Company includes Zeller Electric, Zynergy Solutions, VSG Enviromation, RC Controls, and WAJA Associates. Until recently, Zeller was headquartered in 33,000 square feet of leased space in Rochester, and has locations in Buffalo, Syracuse, Boston, and Toronto. In total, Zeller employs 95 in New York State.

As the Company continued to grow new products and services, it needed additional space. Since its primary growth is outside of New York State, Zeller considered several out-of-state alternatives, especially Massachusetts, home to its main supplier and where there is an increased availability of engineering and electrical workers. In April 2008, the Company approached ESD and other local entities for assistance to lower the costs of pursuing the project in Rochester. ESD offered a \$350,000 capital grant, which the Company accepted on April 16, 2008. As a result, Zeller decided to remain in Rochester, relocating its headquarters, manufacturing and warehouse facility to space in the Gleason Works Industrial Park in Rochester. (ESD assistance in 2007 helped to create this park. Gleason, one of Rochester's oldest companies, retooled to shrink its space needs and vacate 250,000 square feet of its 700,000-square-foot facility, making room for suppliers and other vendors to relocate to that space. Zeller is one of those vendors.) Zeller's new location will allow for the Company's future growth. The site was added as a regionally significant project to the City of Rochester's Empire Zone. Without ESD's and local incentives, the Company would have relocated all of its 63 jobs to another state.

B. The Project

Zeller has leased 55,000 square feet in the Gleason Works industrial park. The Company has completed building renovations and the acquisition of furniture, fixtures and machinery and equipment, primarily information technology equipment and software, and has provided employee training on its new computer system. The project was completed in December 2008, and Zeller currently employs 81.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$350,000 (\$3,500) 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. 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.

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 \$350,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$175,000) upon documentation of renovation, FF&E, and machinery and equipment project costs totaling \$2,800,000, and documentation of the employment of at least 63 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 (\$87,500) will be disbursed upon documentation of the employment of at least 88 Full-time Permanent Employees at the Project Location (Employment Increment of 25), provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$87,500) will be disbursed upon documentation of the employment of at least 113 Full-time Permanent Employees at the Project Location (Employment Increment of 25), 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 April 16, 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 \$350,000, 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	63
A	B
Reporting Date	Employment Goals
February 1, 2011	63+X+Y
February 1, 2012	63+X+Y
February 1, 2013	63+X+Y
February 1, 2014	63+X+Y
February 1, 2015	63+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=25, and Employment Goals shall equal $[63 + X = 88]$ 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=25, and Employment Goals shall equal $[63 + X + Y = 113]$ 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 retain its employment level of 63 jobs, which were at risk, and create 50 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 Massachusetts. 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 \$4,921,921;
- Fiscal cost to NYS government is estimated at \$350,000;
- Project cost to NYS government per direct job is \$4,647;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$2,121;
- Ratio of project fiscal benefits to costs to NYS government is 14.06:1;
- Fiscal benefits to all governments (state and local) are estimated at \$8,306,029;
- Fiscal cost to all governments is \$350,000;
- All government cost per direct job is \$4,647;
- All government cost per total job is \$2,121;
- The fiscal benefit to cost ratio for all governments is 23.73:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$46,972,160, or \$284,619 per job (direct and indirect);
- The economic benefit to cost ratio is 134.21:1;
- Project construction cost is \$2,200,000 which is expected to generate 21 direct job years and 17 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 1.20 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. Zeller 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

March 26, 2009

Rochester (Monroe County) – Zeller Corporation 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 Zeller Corporation 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 Zeller Corporation a grant for a total amount not to exceed Three Hundred Fifty Thousand Dollars (\$350,000) 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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