

FOR CONSIDERATION

March 23, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Falconer (Chautauqua County) – County of Chautauqua IDA - SKF Heat Transfer 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

I. Project Summary

Grantee: County of Chautauqua Industrial Development Agency (the “CCIDA”)

Beneficiary Company: SKF USA Inc. d/b/a SKF Aeroengine North America (“SKF” or the “Company”)

ESD* Investment: A grant of up to \$250,000 to be used for a portion of the costs for the acquisition and installation 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: One Maroco Road, Falconer, Chautauqua County

Proposed Project: The construction of an 82,000-square-foot facility and the acquisition and installation of machinery and equipment to facilitate the relocation of the heat transfer operation.

Project Completion: April 2011

Number of Employees at Project Location:
 Current employment level: 596
 Minimum employment on January 1, 2013: 600

Grantee Contact: Richard E. Dixon, Chief Financial Officer
 200 Harrison Street
 Jamestown, NY 14701
 Phone: (716) 661-8905 Fax: (716) 664-4515

Beneficiary Contact: Terry Papincak, Controller
 One Maroco Road, P.O. Box 263
 Falconer, NY 14733
 Phone: (716) 661-2676 Fax: (716) 661-2729

Anticipated
 Appropriation
 Source: Empire State Economic Development Fund

ESD Project No.: X188

Project Team:	Origination	Robert Iszard
	Project Management	Jean Bly
	Affirmative Action	Helen Daniels
	Finance	Jonevan Hornsby
	Environmental	Rachel Shatz

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Facility Construction	\$10,633,000
Machinery & Equipment	5,220,000
Relocation & Soft Costs	<u>2,075,000</u>
Total Project Costs	<u>\$17,928,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD EDF Grant (X188)	\$ 250,000	1%
ESD EDP Grant (X064)	250,000	1%
ESD EDF MAP Grant (W768)**	1,375,000	8%
ESD URBG Grant (W769)**	1,375,000	8%
McGuire Development Company Contribution	10,633,000	59%
Beneficiary Equity	<u>4,045,000</u>	<u>23%</u>
Total Project Financing	<u>\$17,928,000</u>	<u>100%</u>

**To be presented to the Directors at a later date.

III. Project Description

A. Background

The CCIDA, established in 1972, is the principal force attracting new business and industry to Chautauqua County (the “County”). The CCIDA’s primary objective is to position the County as an outstanding environment for both large and small businesses to locate or expand by providing financial incentives and low-interest loans, allowing for increased employment, a greater infusion of capital into the local economy, and an increased tax base.

SKF, founded in 1903, is a manufacturer of high-precision, custom-engineered ball and roller bearings for critical aeroengine and specialty applications. The Company manufactures bearings to tolerances from 10 to 50 millionths of an inch (approximately 1% of the thickness of a human hair). The aerospace business includes ball and roller bearings for helicopters, mainshaft and gearboxes for jet engines and for all types of aircraft power assemblies. Specialty products are custom-designed bearings for technically and environmentally demanding applications, such as pumps, motors and power transmission assemblies. SKF facilities include aerospace, specialty and remanufacturing businesses in Falconer, NY (formerly known as MRC Bearings Division) and Jamestown, NY (formerly known as Marlin Rockwell Corporation); a high-precision, specialty steel and ceramic ball manufacturing facility at SKF Specialty Balls (Colebrook, CT); and a bearing repair facility at SKF Aero Bearing Service Center (North Charleston, SC). The Company is a unit of SKF Industrial Division, which is a subsidiary of Aktiebolaget SKF (the “Parent”), publicly traded as “AB SKF”, headquartered in Gothenburg, Sweden, and a global supplier of products, solutions and services in the roller bearings and seals business. The Parent employs nearly 39,000 people in more than 130 countries.

In mid-2008, SKF advised ESD that the existing lease on its Jamestown facility would expire in 2012 and the heat treat operations housed at that facility would need to be relocated. The Company was considering relocating the heat treat operation to either a new facility in close proximity to its existing Falconer operation, to an existing facility in Charleston, South Carolina or split between the two locations. In November 2008, ESD provided an Incentive Proposal to the Company to relocate a substantial portion of the heat treat operations to Falconer. The offer was subsequently revised in August 2009 to include a total of \$3.25 million in assistance if SKF proceeded with the relocation of the heat treat operations to Falconer. The revised offer included a \$1.375 million MAP grant and a \$1.375 million Upstate Regional Blueprint Fund grant to SKF and two \$250,000 grants to the CCIDA with SKF as the beneficiary. This request is for a \$250,000 Empire State Economic Development (“EDF”) grant. There is also a request for the \$250,000 New York State Economic Development Program (“NYEDP”) grant at the March 2011 ESD Directors’ meeting. The remainder of the ESD assistance to SKF for this project will be brought before the ESD Directors at a later date.

Previously, the ESD Directors approved a \$550,000 capital grant to SKF on March 20, 2008 to assist with the acquisition and installation of new machinery and equipment at the Falconer facility. ESD disbursed \$275,000 of the grant in April 2009, with the remainder to be disbursed following increased production achievements. The Company is in compliance with the terms of grant, and has exceeded the projected employment of 395.

B. The Project

The \$17.928 million project involves the construction of a 82,000-square-foot facility, the acquisition and installation of machinery and equipment including heat, washer, cooler and chiller systems, and equipment relocation and installation, plus design/professional fees necessary to relocate the heat treat facility from Jamestown and establish additional research and development and office space. McGuire Development Company (Buffalo, NY), a development and property management firm, will construct the building, which SKF will lease for a term of twenty years. The project began in May 2010 and is scheduled to be completed in April 2011.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Grantee/Beneficiary Company will reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Grantee will demonstrate no material adverse change in its financial condition prior to disbursement.
3. The Grantee/Beneficiary 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 Grantee/Beneficiary Company or by investors, and should be auditable through Grantee/Beneficiary Company financial statements or Grantee/Beneficiary Company accounts, if so requested by ESD. Equity cannot be borrowed money secured by the assets in the project.
4. Up to \$250,000 will be disbursed to Grantee in a lump sum upon completion of the project as described in these materials and evidenced by a certificate of occupancy and documentation of eligible project costs totaling \$17,928,000 incurred by the Beneficiary and McGuire Development Company, and assuming that all project approvals have been completed and funds are available.

Payment will be made upon presentation to ESDC of such documentation as ESDC may reasonably require. Expenses must be incurred on or after September 3, 2009, to be considered eligible project costs.

5. 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.

IV. Statutory Basis

1. The 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 increase productivity and sales, which will also allow for further expansion if market shares continue to increase.

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

This project would be unlikely to take place in New York State without the requested assistance because the Parent only approved \$2.2 million in capital expenditures, but the Company identified necessary capital expenditures of \$3.7 million to maintain and potentially increase its current market share. The Parent-approved \$2.2 million capital expenditure would only allow for the replacement of a portion of the twenty-to-forty year-old machinery and equipment, rather than provide the opportunity to invest in new technology that would revolutionize 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 \$719,496;
- Fiscal cost to NYS government is estimated at \$500,000;
- Ratio of project fiscal benefits to costs to NYS government is 1.44:1;
- Fiscal benefits to all governments (state and local) are estimated at \$1,233,282;
- Fiscal cost to all governments is \$500,000;
- The ratio of project fiscal benefit to cost ratio to all governments is 2.47:1;
- Economic benefits (total fiscal plus total net resident disposable income from project construction employment) are estimated at \$6,502,671;
- The economic benefit to cost ratio is 13.01:1;
- Project construction cost is \$12,708,000 which is expected to generate 115 direct job years and 72 indirect job years of employment;
- The payback period for NYS costs is 2 years.

4. The requirements of Section 10(g) of the Act are satisfied.

No residential relocation required as there are no families or individuals residing on the site.

V. Environmental Review

The Chautauqua County Industrial Development Agency, 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 21, 2010. 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. County of Chautauqua Industrial Agency 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 Employment Enforcement Policy

ESD's Employment Enforcement Policy will not apply since the project will not directly create or retain jobs.

VIII. 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.

IX. Additional Submissions to Directors

Resolutions
New York State Map
Project Finance Memorandum
Cost-Benefit Analysis

March 23, 2011

Falconer (Chautauqua County) – County of Chautauqua IDA-SKF Heat Transfer 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 Falconer (Chautauqua County) – County of Chautauqua IDA-SKF Heat Transfer 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 – 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 President 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 President and Chief Executive Officer – Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to County of Chautauqua Industrial Development Agency 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 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 President 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 President 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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March 23, 2011

Falconer (Chautauqua County) – County of Chautauqua IDA-SKF Heat Transfer 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 Falconer (Chautauqua County) – County of Chautauqua IDA-SKF Heat Transfer 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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