

## C. Lake Distilling Capital (U073)

March 23, 2011

### General Project Plan

**Grantee:** Lake Distilling, LLC (“Lake Distilling” or the “Company”)

**ESD Investment:** A grant of up to \$75,000 to be used for a portion of the cost of machinery and equipment.

**Project Locations:** 2181 Venice-Genoa Town Line Road, King Ferry, Cayuga County\*  
2183 Venice-Genoa Town Line Road, King Ferry, Cayuga County

\* Project Activity site; other is job retention site.

**ESD Incentive Offer Accepted:** March 30, 2006

**Project Completion:** December 2006

#### **Number of Employees at Facility:**

Initial employment at time of ESD Incentive Offer ESD: 0\*\*

Current employment level: 9

Minimum employment on January 1, 2012: 20

\*\*Three employees were employed by Log City Milling, Inc., 2183 Venice-Genoa Town Line Road, King Ferry, Cayuga County.

**Grantee Contact:** David P. Smith, Member  
8735 Route 90, P.O. Box 3  
King Ferry, New York 13081  
Phone: (315) 730-6309 Fax: (315) 364-8079

**Project Team:**

Origination	Bonnie Palmer
Project Management	Beverly Bobb
Affirmative Action	Helen Daniels
Environmental	Rachel Shatz

#### **Project Description:**

##### Background

Established in 2005, Lake Distilling, LLC, is a small premium distillery that manufactures commercial grade ethanol and high premium grade vodka located outside the village of King Ferry in Central New York State. The Company was created as an extension of Log City Milling Inc., a grain and milling business, which will maintain a synergistic relationship with the Company by sourcing and supplying the grain required for the Company’s new operations. Major customers include Fleischmann’s Vinegar (North Rose, NY), Diageo Brands (London, England) and Vertical NA (Houston, TX). Primary competitors include

### **C. Lake Distilling Capital (U073)**

March 23, 2011

Glacial Grain Spirits (Benson, MN), Distilled Resources Inc., (Ketchum, ID) and Commercial Alcohols, Inc. (subsidiary of Pharmco Products, Inc.).

Vodka accounts for 27.6% of all spirits sales in the United States. The high premium segment of the vodka market has increased 38% by volume while the entire spirit market increased only 4.1%. Demand for these products and the higher quality vodka is expected to rise. There are several successful industrial distilleries in the United States, however the majorities of these distilleries are located in the Midwestern United States and specialized in making industrial ethanol, food and cosmetic grade alcohol. Similar to their competitors, Lake Distilling produces food and cosmetic grade alcohol but part of its production will include organic alcohol made from organic wheat, organic corn and organic barley. These growth trends, the additional advantage of the Company's organic certification process, and the general lack of capacity in this market segment gave the Company a very competitive position. There are currently no other organic distilleries with its capacity in New York State, or in the entire Northeast, and Lake Distilling was uniquely positioned to enter this industry as a result of its relationship with Log City Milling, Inc. Additionally, this business venture would also offer a strategic opportunity to provide increased markets for local agriculture in the area of grain production. The distillery would provide an alternative market for local farmers with damaged grain which is a welcomed opportunity for New York State farmers.

To capitalize on this opportunity, the Company needed to make a significant investment in a new distillery. To reduce the cost of the machinery and equipment and to induce the Company to proceed with the project in New York State, in March 2006, ESD provided the Company an incentive offer for a \$75,000 capital grant. The Company accepted the offer in March 30, 2006. As a result of the project, three existing jobs will be retained and seventeen new jobs will be created in New York State.

#### The Project

The Company has constructed an 8,000-square-foot distillery and purchased new machinery and equipment. The facility will distill grain into commercial grade ethanol and premium grade vodka. Lake Distilling began production in May 2010 at a rate of 1,000,000 gallons of fuel ethanol per year. Ultimately, the distillery will produce organic industrial ethanol, food and cosmetic grade alcohol as well as premium vodka from grain grown throughout the Finger Lakes.

Lake Distilling anticipates expanding its product line as production ramps up and sales opportunities arise. Production in 2010 generated sales of \$2,000,000 and is expected to increase to \$5,000,000 in the Company's first full year of operation in 2011.

### C. Lake Distilling Capital (U073)

March 23, 2011

Financing Uses	Amount	Financing Sources	Amount	Percent
Building Construction	\$650,000	ESD Grant	\$75,000	2.4%
Machinery and Equipment	1,744,800	Company Equity	589,916	18.9%
Transportation	252,799	USDA Grant*	300,000	9.6%
Installation	340,000	CDB Loan**	174,480	5.6%
Soft Costs	126,277	CDB Grant	174,480	5.6%
		GSBDC Loan***	50,000	1.7%
		CNYRPDB Loan****	50,000	1.7%
		Wilber National Bank*****	1,700,000	54.5%
<b>Total Project Costs</b>	<b>\$3,113,876</b>	<b>Total Project Financing</b>	<b>\$3,113,876</b>	<b>100.0%</b>

\* United State Department of Agriculture

\*\* Community Development Block Loan - 4.5% /5yrs/1<sup>st</sup> lien on machinery and equipment

\*\*\* Greater Syracuse Business Development Corporation - 4.5% /5yrs/2nd lien on Lake Distilling, LLC assets and real estate

\*\*\*\* Central New York Regional Planning and Development Board - 4.5% /5yrs /2<sup>nd</sup> lien on Lake Distilling, LLC assets and real estate

\*\*\*\*\* 7% /7yrs/ 1<sup>st</sup> lien on new machinery and equipment and real estate

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$75,000 capital grant (\$750) 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 a material adverse change in its financial condition prior to disbursement.
3. The Company will be required to contribute at least 10% of the total project cost in the form of equity contributed after the Company's written 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 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.

### C. Lake Distilling Capital (U073)

March 23, 2011

5. Up to \$75,000 will be disbursed to the Grantee in two installments as follows:
  - a) an Initial Disbursement of an amount equal to 50% of the grant (\$37,500) upon documentation of machinery and equipment project costs totaling \$1,000,000, upon completion of the project substantially as described in these materials, and documentation of the employment of at least 10 Full-time Permanent Employees by Lake Distilling, LLC at the Project Locations (Employment Increment of 10), assuming that all project approvals have been completed and funds are available;
  - b) a Second Disbursement of an amount equal to 50% of the grant (\$37,500) will be disbursed upon documentation of the employment of at least 14 Full-time Permanent Employees by Lake Distilling, LLC at the Project Locations (Employment Increment of 4), and documentation of at least 6 Full-Time Permanent Employees by Log City Milling, Inc. at the Project Locations (Employment Increment of 3\*) provided Grantee is otherwise in compliance with program requirements.

\* Log City Milling, Inc. has three existing employees.

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 March 30, 2006 to be considered eligible project costs. All disbursements must be requested by April 1, 2010.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$75,000, 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

**C. Lake Distilling Capital (U073)**

March 23, 2011

- 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	0*
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A	B
Reporting Date	Employment Goals
February 1, 2012	0+X+Y
February 1, 2013	0+X+Y
February 1, 2014	0+X+Y
February 1, 2015	0+X+Y
February 1, 2016	0+X+Y

X = Grantee's Employment Increment that will be the basis of the Initial Disbursement of the Grant as described in section 5 above (i.e. X=10, and Employment Goals shall equal  $[0 + X = 10]$  if the Initial Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Initial Disbursement has not yet been made then X=0.

Y = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section 5 above (i.e. Y=7\*\* and Employment Goals shall equal  $[0* + X + Y = 20]$  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 Y=0.

\*Log City Milling, Inc. has three existing jobs that will be counted towards the Second Disbursement.

\*\* Four jobs will be created by Lake Distilling, LLC and three will be created by Log City Milling, Inc.

**Environmental Review:**

ESD staff has determined that, although the funding of this project by ESD may constitute an “action” as defined by the State Environmental Quality Review Act (“SEQRA”), the project itself has been previously completed. ESD’s action in the funding decision will not alter the adverse environmental impacts, if any, of the project as completed. ESD staff accordingly believes that funding the completed project will not have any significant adverse impacts on the environment.

### C. Lake Distilling Capital (U073)

March 23, 2011

#### Statutory Basis – Empire State Economic Development Fund:

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 retain 3 existing jobs and create 17 new jobs.
2. The project would be unlikely to take place in New York State without the requested assistance.  
The Company's financing was insufficient to meet the projects needs resulting in a funding gap. The project would not have been possible without ESD funds.
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, project total fiscal benefits to New York State government are expected to be \$998,645, which exceed the cost to the State.
4. The requirements of Section 10(g) of the Act are satisfied.  
See cover memo.

March 23, 2011

King Ferry (Cayuga County) – Lake Distilling Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – Determination of No Significant Effect on the Environment

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RESOLVED, that based on the materials submitted to the Directors with respect to the Lake Distilling 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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