

FOR CONSIDERATION

November 19, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Elmira (Chemung County) – F.M. Howell 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

General Project Plan

I. Project Summary

Grantee: F.M. Howell & Company (“F.M. Howell” or the “Company”)

ESD* Investment: A grant of up to \$250,000 to be used for a portion of the cost associated with the construction of a new 68,000-square-foot pharmaceutical sample fulfillment facility.

* The New York State Urban Development Corporation doing business as the Empire State Development Corporation (“ESD” or the “Corporation”)

Project Location: 100 East Miller Street, Elmira*
79 Pennsylvania Avenue, Elmira
728 Hatch Street, Elmira
151 East Fifth Street, Elmira

*Project activity site; others are job-retention sites.

NYS Empire Zone: Elmira Empire Zone

Proposed Project: Acquisition of land, construction of a new 68,000-square-foot facility and the purchase and installment of new machinery and equipment to establish the Company's pharmaceutical sample fulfillment operations.

ESD Incentive Offer Accepted: October 4, 2007

Project Completion: August 2008

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	233
Current employment level:	240
Minimum employment on January 1, 2011:	301

Grantee Contact: Keith Baumann, Director of Finance
79 Pennsylvania Avenue
Elmira, NY 14902
Phone: 607-734-6291
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Anticipated
Appropriation
Source:

Empire State Economic Development Fund

ESD Project No.: V799

Project Team:	Origination	Joe Roman
	Project Management	Brendan Healey
	Affirmative Action	Denise Ross
	Finance	Amit Nihalani
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Real Estate Acquisition	\$400,000
Facility Construction	\$14,000,000
Machinery/Equipment	<u>1,000,000</u>
Total Project Costs	<u>\$15,400,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant (EDF)	\$250,000	2%	
ESD-Grant (CCAP)*	\$180,000	1%	
Southern Tier Economic Growth Loan	\$300,000	2%	0%/10yrs/RE
Elmira Savings Bank Loan	\$4,270,000	28%	6.5%/20yrs/RE,M&E
Elmira Savings Bank Line of Credit	\$6,000,000	39%	Varies/7 yrs/Inventory,M&E
Company Equity	<u>\$4,400,000</u>	<u>29%</u>	
Total Project Financing	<u>\$15,400,000</u>	<u>100.0%</u>	

* Senate item under review.

III. Project Description

A. Background

F.M. Howell & Company, a privately held company, began operations in Elmira in 1883 and has evolved from manufacturing cigar labels to its current products offered including folding cartons for packaging, thermoformed plastics used primarily for industrial materials handling, and packaging services for the pharmaceutical industry. The Company has three additional facilities, as well as a wholly-owned advertising subsidiary Howell, Liberatore and Wickham, in Elmira.

The Company has annual sales of \$35 - \$40 million, with two-thirds of the business derived through sales of folding paperboard cartons. The remaining one-third of sales is split equally between sales of thermoformed plastics and the provision of contract packaging services. Approximately 70% of revenue is derived from products and services in the pharmaceutical industry, which is concentrated in New Jersey as well as the Midwest. 10% of its business comes from auto parts manufacturers, which is concentrated in upstate New York and Virginia. The Company also provides products for the dinner and cookware industry in upstate New York and for the computer software industry in metro New York. Major customers include Bayer Corporation, AstraZeneca Corporation, Corning Incorporated and Hoffman LaRoche Corporation. Its significant competitors include MeadWestvaco Healthcare Packaging, Shorewood Packaging, Arlington Press and Caraustar Packaging.

The Company received ESD assistance in 2006, utilizing the Linked Deposit program with a \$500,000 loan for equipment purchase through the Elmira Savings Bank and is in good standing.

In one of its facilities, the Company had been running a small incubator business in pharmaceutical sample packaging. In order to expand its market share in pharmaceutical sample packaging, the Company needed to acquire additional space. In addition, the Company was making a \$10M investment in machinery and equipment for its carton and plastics divisions. Given the high cost of constructing and equipping a new facility along with the financial stress added from the separate, additional machinery and equipment investment, F.M. Howell approached ESD in early 2007 for financial assistance to establish a new pharmaceutical sample packaging facility within Elmira. ESD responded with a \$250,000 capital grant incentive offer which the Company accepted

in October 2007. Without ESD's assistance, it is not likely that the project would have occurred and the Company's eight pharmaceutical sample packaging jobs would have likely been eliminated.

B. The Project

The project involved the acquisition of property, the construction of a 68,000-square-foot facility and the purchase and installation of new machinery and equipment to establish a pharmaceutical sample fulfillment facility. Equipment included a state-of-the-art warehousing and distribution computer system, warehousing infrastructure, Drug Enforcement Administration ("DEA") security systems, and material handling systems. Essentially, the fulfillment facility will receive packaged pharmaceuticals such as tablets and pills and then re-package and label them for the pharmaceutical companies. Ultimately, these sample packages are used by doctors to provide samples of products to their patients.

The project was completed in August 2008, and will help the Company to increase sales as it expands its pharmaceutical sample fulfillment market share.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$250,000 capital grant (\$2,500) 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 be obligated to advise ESD of a 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 \$250,000 will be disbursed to Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$125,000) upon completion of the project as evidenced by a certificate of occupancy, documentation of facility construction project costs totaling \$4,000,000, and documentation of

employment of at least 233 Full-time Permanent Employees, 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 (\$62,500) upon documentation of the employment of at least 267 Full-time Permanent Employees (Employment Increment of 34), assuming that all project approvals have been completed and funds are available,
- c) a Third Disbursement of an amount equal to 25% of the grant (\$62,500) upon documentation of the employment of at least 301 Full-time Permanent Employees (Employment Increment of 68), assuming that all project approvals have been completed and funds are available.

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 October 4, 2007 to be considered eligible project costs. All disbursements must be requested by April 1, 2011.

- 6. 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.
- 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	233
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A	B
Reporting Date	Employment Goals
February 1, 2011	233+X+Y
February 1, 2012	233+X+Y
February 1, 2013	233+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=34, and Employment Goals shall equal [233 + X = 267] 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=34, and Employment Goals shall equal [233 + X + Y = 301] 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 233 full-time employees, including retention of 8 jobs which were at risk of elimination because the Company needed to make an immediate decision to either invest in and develop its pharmaceutical sample packaging business or eliminate it, establish a new warehouse and distribution facility and create 68 new full-time permanent jobs.

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

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 \$2,400,417;
- Fiscal cost to NYS government is estimated at \$664,181;
- Project cost to NYS government per direct job is \$12,498;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$7,760;
- Ratio of project fiscal benefits to costs to NYS government is 3.61:1;

- Fiscal benefits to all governments (state and local) are estimated at \$4,004,159;
- Fiscal cost to all governments is \$898,362;
- All government cost per direct job is \$16,905;
- All government cost per total job is \$10,496;
- The fiscal benefit to cost ratio for all governments is 4.46:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$20,058,972, or \$234,348 per job (direct and indirect);
- The economic benefit to cost ratio is 22.33:1;
- Project construction cost is \$14,000,000 which is expected to generate 172 direct job years and 76 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.62 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 1 year.

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

The City of Elmira Planning Commission, 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 would not have a significant effect on the environment. ESD staff reviewed the 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. The Company 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

November 19, 2009

Elmira (Chemung County) – F. M. Howell 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 F.M. Howell 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, Chairman and Chief Executive Officer-Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to F.M. Howell & Company a grant for a total amount not to exceed Two Hundred 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 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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November 19, 2009

Elmira (Chemung County) – F.M. Howell 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 F.M. Howell Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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