

FOR CONSIDERATION

October 21, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Seneca Falls (Seneca County) – ITT Goulds Pumps 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

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General Project Plan

I. Project Summary

Grantee: Goulds Pumps Inc.

ESD\* Investment: A grant of up to \$1,350,000 to be used for a portion of the cost of renovations and 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: 240 Fall Street, Seneca Falls, Seneca County

NYS Empire Zone  
(or equivalent): Seneca County Empire Zone [Certified 1999; 1,154:1 cumulative ratio 2001-2007]

Proposed Project: Renovate and upgrade pump manufacturing facility to allow for consolidation with other facilities.

ESD Incentive Offer Accepted: August 25, 2008

Project Completion: September 2009

Number of Employees at Project Location:

|  |     |
|--|-----|
| Initial employment (at time of ESD Incentive Offer): | 680 |
| Current employment level:                            | 720 |
| Minimum employment on January 1, 2013:               | 740 |

Grantee Contact: Ron Golumbeck, Vice President and Human Resources Director  
240 Fall Street  
Seneca Falls, NY 13148  
Phone: (315) 568-2811  
Fax: (315) 568-5737

Anticipated  
Appropriation  
Source:

Empire State Economic Development Fund

ESD Project No.: W339

|               |                    |                  |
|---------------|--------------------|------------------|
| Project Team: | Origination        | Linda Serritella |
|               | Project Management | Edward Muszynski |
|               | Affirmative Action | Helen Daniels    |
|               | Finance            | Jonevan Hornsby  |
|               | Environmental      | Soo Kang         |

II. Project Cost and Financing Sources

| <u>Financing Uses</u>                              | <u>Amount</u>    |
|--|------------------|
| Upgrade Electric System                            | \$1,975,897      |
| Upgrade Assembly Areas                             | 1,243,261        |
| Machinery & Equipment for<br>Test Station Upgrades | 682,024          |
| Office Renovations                                 | <u>2,098,818</u> |

Total Project Costs \$6,000,000

| <u>Financing Sources</u>                          | <u>Amount</u>    | <u>Percent</u> |
|---|------------------|----------------|
| ESD-Grant   | \$ 1,500,000     | 25.0%          |
| Dormitory Authority of<br>State of New York-Grant | 500,000          | 8.3%           |
| Company Equity                                    | <u>4,000,000</u> | <u>66.7%</u>   |

Total Project Financing \$6,000,000 100.0%

### III. Project Description

#### A. Background

Founded in Seneca Falls in 1848, Goulds Pumps Inc. (“Goulds” or the “Company”) designs, manufactures, and services pumps, motors and accessories for the industrial, agricultural, commercial and consumer markets. In 1997, the Company became a wholly owned subsidiary of ITT Industries Inc., which is the world’s largest supplier of pumps and related fluid systems. Goulds is Seneca County’s largest employer.

The Company is under increasing global competitive cost pressures, particularly in North America, as small companies manufacture similar products and market them aggressively. The Company recently determined that to improve productivity and reduce cost, it needed to consolidate its two manufacturing operations, located in Seneca Falls, New York and Ashland, Pennsylvania. Although there are some differences in product design, the New York and Pennsylvania facilities both produce horizontal centrifugal pumps for similar customers. Goulds considered consolidation at either location or in an entirely different, lower-cost region. In order to consolidate in New York, the Company needed to modernize its aging Seneca Falls facilities. To make the New York location financially feasible, the Company approached ESD for assistance to lower costs. ESD responded with an offer of a \$1,350,000 capital grant in July 2008, which the Company accepted on August 25, 2008. Based on ESD’s incentives and Empire Zone benefits, the Company decided to expand and modernize its Seneca Falls facilities, maintaining 680 jobs, including 150 that would have been lost, and creating 60 new jobs. (ESD’s original offer, as accepted by the Company, was for \$1,500,000 at a baseline of 758 jobs. However, since the economic slowdown has resulted in current employment to be below that level, ESD’s grant was reduced proportionately to \$1,350,000.)

Between 1995 and 2004, ESD has made both discretionary and non-discretionary grants to Goulds totaling approximately \$420,000 for workforce training and \$950,000 for capital and infrastructure improvements, for the benefit of Goulds’ Industrial Products Group in Seneca Falls and its Water Products Group in Auburn, NY. Goulds repaid to ESD a portion (\$20,000) from a grant made in 2002 after the Company fell short of its employment goals. In 2005, ESD approved a \$900,000 capital grant for the Company to consolidate its New York State operations into one facility in Seneca Falls. That grant was disbursed, and the Company is in compliance with current job requirements.

#### B. The Project

The project includes the renovation and upgrade of the Company’s 850,000-square-foot manufacturing assembly and testing facility. Specific tasks include expanding receiving, upgrading electrical systems, upgrading shop, assembly and office areas, new machinery and equipment for test stations. Consolidation of facilities would increase critical mass and build on best practices, which would greatly reduce overhead and operational costs. The project is complete and 40 of the 60 new jobs have already been created.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$ 1,350,000 capital grant (\$13,500) 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. ITT Corporation. will guarantee the grant repayment obligation of its subsidiary, Goulds Pumps Inc., in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. 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.
5. 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.
6. Up to \$1,350,000 will be disbursed to the Grantee in three installments as follows:
  - a) an Initial Disbursement of an amount equal to 50% of the grant (\$675,000) upon documentation of renovation/machinery and equipment project costs totaling \$6,000,000, and documentation of the employment of at least 680 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 (\$337,500) will be disbursed upon documentation of the employment of at least 710 Full-time Permanent Employees at the Project Location (Employment Increment of 30), provided Grantee is otherwise in compliance with program requirements;
  - c) A Third Disbursement of an amount equal to 25% of the grant (\$337,500) will be disbursed upon documentation of the employment of at least 740 Full-time Permanent Employees at the Project Location (Employment Increment of 30), 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

August 25, 2008 to be considered eligible project costs. All disbursements must be requested by April 1, 2013.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$1,350,000, 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.
8. 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 one hundred percent (100%) 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 | 680 |
|---------------------|-----|

| A                | B                |
|------------------|------------------|
| Reporting Date   | Employment Goals |
| February 1, 2011 | 680+X+Y          |
| February 1, 2012 | 680+X+Y          |
| February 1, 2013 | 680+X+Y          |
| February 1, 2014 | 680+X+Y          |
| February 1, 2015 | 680+X+Y          |

X = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section C.6 above (i.e. X=30, and Employment Goals shall equal [680 + X = 710] 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.6 above (i.e. Y=30, and Employment Goals shall equal [680 + X + Y = 740] 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 680 employees, including retention of 150 jobs which were at risk of relocation to another state. In addition, the Company will create 60 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 Pennsylvania or to a lower-cost region of the U.S. 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 \$8,870,817;
- Fiscal cost to NYS government is estimated at \$1,350,000;
- Project cost to NYS government per direct job is \$9,253;
- Project cost to NYS government per job (direct plus indirect ) is estimated at \$3,675;
- Ratio of project fiscal benefits to costs to NYS government is 6.57:1;
- Fiscal benefits to all governments (state and local) are estimated at \$14,945,726;
- Fiscal cost to all governments is \$1,350,000;
- All government cost per direct job is \$9,253;

- All government cost per total job is \$3,675;
- The fiscal benefit to cost ratio for all governments is 11.07:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$78,028,037, or \$212,391 per job (direct and indirect);
- The economic benefit to cost ratio is 57.80:1;
- Project construction cost is \$200,000 which is expected to generate 31 direct job years and 22 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 1.53 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 2 years.

(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. Goulds Pumps Inc 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

October 21, 2009

Seneca Falls (Seneca County) – ITT Goulds Pumps 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

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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 ITT Goulds Pumps 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 Goulds Pumps Inc. a grant for a total amount not to exceed One Million Three Hundred Fifty Thousand Dollars (\$1,350,000) 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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