

FOR CONSIDERATION

October 21, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Watkins Glen (Schuyler County) – Watkins Glen Harbor Hotel & Conference Center Capital – Empire State Economic Development Fund – Commercial Area Development Financing – Tourism Destination Project (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

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General Project Plan

I. Project Summary

Grantee: Seneca Market I, LLC (“Seneca Market” or the “Company”)

Beneficiary: Hart Hotels

ESD\* Investment: A grant of up to \$135,000 to be used for a portion of the cost of construction of a new full service hotel (the “Hotel”).

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

Project Location: 16 N. Franklin Street, Watkins Glen, Schuyler County

NYS Empire Zone  
(or equivalent): Schuyler County Empire Zone

Proposed Project: Construction of a new full service hotel with 92 rooms and suites in a four-story structure in the heart of the Finger Lakes wine country.

ESD Incentive Offer Accepted: October 17, 2006

Project Completion: July 2008

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer: 0

Current employment level: 60

Minimum employment on January 1, 2010: 60

Grantee Contact: Seneca Market I, LLC  
David Hart, President & CEO  
617 Dingens Street  
Buffalo, NY 14206  
Phone: (716) 893-6551  
Fax: (716) 893-6517

Beneficiary Contact: Hart Hotels, Inc.  
617 Dingens Street  
Buffalo, NY 14206  
Phone: (716) 893-6551 Fax: (716) 893-6517

Anticipated  
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: U620

Project Team: Origination Joseph Roman  
Project Management Javier Roman-Morales  
Affirmative Action Denise Ross  
Environmental Soo Kang

## II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Construction	\$13,972,920
Furniture, Fixtures & Equipment	2,054,000
Land Acquisition	1,600,000
Permits, Legal	<u>1,520,712</u>

Total Project Costs \$19,147,632

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$135,000	.7%	
Northeastern Savings Bank-Loan	13,075,000	68.3%	6.32%/7 yrs/1 <sup>st</sup> on RE Company
Equity	<u>5,937,632</u>	<u>31.0%</u>	
Total Project Financing	<u>\$19,147,632</u>	<u>100.0%</u>	

### III. Project Description

#### A. Background

Hart Hotels, Inc is a privately owned company established in 1985 by William P. Hart, currently Chairman of the Board. Hart Hotels, Inc. owns and operates six hotels in the Greater Buffalo area and two in the Finger Lakes region of New York in addition to the Portland Harbor Hotel in Portland, Maine, the Hawthorn Suites Hotel in South Burlington, Vermont, and the Yarrow Resort in Park City, Utah.

In 2005, Hart Hotels hired the Hospitality Consulting Group Inc, located in Germantown, Tennessee to conduct a study with the purpose of determining the market feasibility of a hotel in the Watkins Glen area. The study concluded that the peak summer months of June, July, August and September would generate 60% of the rooms' revenue for the year. The strength of the proposed hotel resided in the strong and growing base of leisure demand to and through the area which has a limited number of full-service hotels and conference centers. According to the consulting group, visitors to the three-county Finger Lakes wine country spend an estimated \$40 million on accommodations per season. There are multiple attractions to the area including: Watkins State Park; Seneca Lake; art and music festivals; boat races; the Corning Museum of Glass; the Rockwell Museum of Western Art; the National War Plane Museum, and the 23 Seneca Lake wineries which are expanding their season to include winter weekends and summer weekdays for wine tasting, tours and demonstrations.

On January 2005, David Hart of Hart Hotels, Inc. partnered with Peter Krog who owned land in Watkins Glen adjacent to Seneca Lake, to form Seneca Market I, the legal entity of the Watkins Glen Hotel and Conference Center.

The Company approached ESD in 2006 with its plan to build a hotel and conference center to support the growing tourism industry in the area. The location was chosen for its proximity to the Finger Lakes Wine Country, Seneca Lake, and Watkins Glen International Racetrack; and promised be a strong draw for business and individual customers searching for an upscale facility. ESD determined that this was an important tourism destination project for the area, and offered a \$135,000 capital grant which the Company accepted on October 17, 2006. ESD's assistance helped finance the construction of the new hotel and conference center, and led to the creation of 60 new full-time permanent employees in the Finger Lakes Region.

#### B. The Project

The project consisted of the construction of a full service hotel with an expanded banquet, meeting and conference center in the Village of Watkins Glen. The Company hired NH Architecture located in Rochester and The Krog Corporation of Orchard Park for architectural services and construction respectively. The Hotel offers 104 luxury deluxe guest rooms and suites, some with lake views, all featuring HDTV and high-speed internet access. The hotel also includes a grand ballroom that accommodates 300 guests, an executive boardroom, the Blue Point Grille (an upscale dining room), a cold water bar, and a patio overlooking Seneca Lake. Other amenities include an indoor swimming pool and jacuzzi, and an expansive fully equipped fitness center.

The economic impact of the Hotel is best measured in the new added tax revenues as reported in the tax filings for the year ending 2008 and 2009. For the year ending December 2009, \$5,462,530 of gross revenues were reported, creating \$423,948 NYS taxes and \$132,233 Schuyler County taxes. The project was completed in July 2008, and the Hotel currently employs 60 new full-time permanent employees.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$135,000 capital grant (\$1,350) 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 owners will be required to contribute a minimum of 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 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 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 \$135,000 will be disbursed to the Grantee in three installments as follows:
  - a) an Initial Disbursement of an amount equal to 50% of the grant (\$67,500) will be disbursed upon completion of the project substantially as described in these materials, and documentation verifying project expenditures of \$9.4 million; 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 (\$33,750) will be disbursed at least one year after disbursement of first installment and upon documentation of the creation of at least 30 Full-time Permanent Employees at the Project Location, provided Grantee is otherwise in compliance with program requirements;
  - c) a Third Disbursement of an amount equal to 25% of the grant (\$33,750) will be

disbursed at least two years after disbursement of first installment and upon documentation of the creation of at least 60 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 October 17, 2006 to be considered eligible project costs. Disbursements must be requested no later than April 1, 2013.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$135,000, 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	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

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=30, and Employment Goals shall equal  $[0 + X = 30]$  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=30, and Employment Goals shall equal  $[0 + X + Y = 60]$  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 create 60 new jobs.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.  
ESD's assistance helped to close the gap in financing enabling the developers to secure additional loan proceeds in order to 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 \$2,156,547;
- Fiscal cost to NYS government is estimated at \$135,000;
- Project cost to NYS government per direct job is \$1,792;
- Project cost to NYS government per job (direct plus indirect ) is estimated at \$1,517;
- Ratio of project fiscal benefits to costs to NYS government is 15.97:1;
- Fiscal benefits to all governments (state and local) are estimated at \$3,613,249;
- Fiscal cost to all governments is \$135,000;
- All government cost per direct job is \$1,792;
- All government cost per total job is \$1,517;
- The fiscal benefit to cost ratio for all governments is 26.76:1;

- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$16,873,079, or \$189,590 per job (direct and indirect);
- The economic benefit to cost ratio is 124.99:1;
- Project construction cost is \$12,452,208 which is expected to generate 155 direct job years and 68 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.19 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

The Village of Watkins Glen Planning Board, 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 an Unlisted Action, which would not have a significant effect on the environment. The lead agency issued a Negative Declaration on February 28, 2005. 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. 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  
 Cost-Benefit Analysis

October 21, 2010

Watkins Glen (Schuyler County) – Watkins Glen Harbor Hotel & Conference Center  
Capital – Empire State Economic Development Fund – Commercial Area Development  
Financing – Tourism Destination Project (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 Watkins Glen Harbor Hotel & Conference Center Capital – Empire State Economic Development Fund -- Commercial Area Development Financing – Tourism Destination (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 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 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 of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Seneca Market One LLC a grant for a total amount not to exceed One Hundred and Thirty-Five Thousand Dollars (\$135,000) 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 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 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 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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October 21, 2010

Watkins Glen (Schuyler County) – Watkins Glen Harbor Hotel & Conference Center  
Capital – Empire State Economic Development Fund – Commercial Area Development  
Financing – Tourism Destination Project (Capital Grant) – Determination of No  
Significant Effect on the Environment

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RESOLVED, that based on the material submitted to the Directors with respect to the Watkins  
Glen Harbor Hotel & Conference Center Capital Project, the Corporation hereby determines that  
the proposed action will not have a significant effect on the environment.

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