

FOR CONSIDERATION

January 20, 2012

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Greece (Finger Lakes Region – Monroe County) – Ortho Clinical Diagnostics 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: Ortho Clinical Diagnostics, a Johnson & Johnson Company (“OCD” or the Company”)

ESD* Investment: A grant of up to \$1,000,000 to be used for a portion of the cost of building acquisition, renovation 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 Locations: 513 Technology Boulevard, Greece, Monroe County**
100 and 130 Indigo Drive, Greece, Monroe County
1000 Lee Road, Greece, Monroe County
15 Limestone Drive, Williamsville, Erie County

**Principal project activity site; others are job-retention sites or where limited project activities occurred.

Proposed Project: Acquire, renovate and equip a former Kodak building in order to continue operations in NYS, including retaining jobs.

Regional Council: The Finger Lakes Regional Council has been made aware of this item.

ESD Incentive Offer Accepted: December 17, 2007 (initial offer); January 17, 2011 (revised offer)

Project Completion: December 2010

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	1,130
Current employment level:	1,142
Minimum employment through January 1, 2014:	1,130

Grantee Contact: Richard Mihaljevic, General Manager, OCD Rochester
 100 Indigo Creek Drive
 Rochester, NY 14626
 Phone: (585) 453-4444
 Fax: (585) 453-3300

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: V875

Project Team:	Origination	Kevin Hurley
	Project Management	Edward Muszynski
	Affirmative Action	Helen Daniels
	Finance	Ross Freeman
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>	
Building Purchase	\$8,046,600	
Renovations	7,375,267	
Machinery & Equipment	<u>29,578,133</u>	
Total Project Costs	<u>\$45,000,000</u>	
<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$1,000,000	2%
Company Equity	<u>44,000,000</u>	<u>98%</u>
Total Project Financing	<u>\$45,000,000</u>	<u>100%</u>

III. Project Description

A. Background

Ortho Clinical Diagnostics, a subsidiary of Johnson & Johnson (“J&J”), designs and manufactures medical equipment and clinical test products. The Company is headquartered in Raritan, NJ, with manufacturing operations in Rochester, NY, Pompano Beach, FL, and Pencoed, Wales. OCD has over 2,500 employees worldwide. In addition to manufacturing and research/development, OCD has customer technical support and training centers in Rochester. The Company also maintains facilities in Canada, United Kingdom, France, Germany, Italy, Spain, Japan, Singapore, and Australia.

OCD was formed when J&J’s Ortho Diagnostic Systems combined with Eastman Kodak’s clinical laboratory products, which J&J acquired in 1994. The Company maintains a leadership position in two market segments: transfusion medicine and clinical laboratories. The latter segment comprises the Rochester operations and includes tests and analyzers for clinical chemistry and immunodiagnostic equipment.

In 2007, Kodak announced that due to its restructuring it would not continue to lease its building to OCD or to supply certain components. At the time, Kodak had begun to sell off many of its Rochester manufacturing plants to create Eastman Business Park, which has become home to many high-tech companies. As a result, OCD could either purchase its leased building or seek space elsewhere, most likely at or near one of its facilities outside of New York State. OCD approached ESD for assistance to lower costs and make the project feasible in New York. ESD offered a \$2 million capital grant, which the Company accepted in December 2007. When the scope of the project changed, ESD revised its offer to a \$1 million capital grant, which OCD accepted in January 2011. As a result, OCD remained and expanded production in the Rochester area. The Company will retain its workforce at all New York State locations. Without ESD’s assistance, the Company would have likely moved operations out of state. As a result of this project, 1,130 jobs have been retained in New York State.

B. The Project

OCD acquired former Kodak building #313 at 513 Technology Boulevard in the Town of Greece and renovated the 440,000 square foot property including a new roof, parking lot, ADA-accessible entrance, elevator, and HVAC upgrades. Additionally, the Company designed and built a small batch coater, a packaging line and other equipment, bringing in-house what Kodak had previously supplied and adding the capacity to grow the business. The Company also added small amounts of equipment to its buildings on Indigo Drive and Lee Road. The purchase and renovation of building #313 secured the manufacturing site for a key OCD product line and enhanced the Eastman Business Park, a key regional asset. The project began in November 2007 and was completed in December 2010.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$1,000,000 capital grant (\$10,000) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will demonstrate no material or adverse changes in its financial condition prior to disbursement.
3. Johnson & Johnson will guarantee the grant repayment obligation of its subsidiary, Ortho Clinical Diagnostics, a Johnson & Johnson Company, in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed after the Company's acceptance of ESD's initial 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.
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 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 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 \$1,000,000 will be disbursed to Grantee upon documentation of building acquisition, renovation, and machinery and equipment project costs totaling \$45 million, as evidenced by a certificate of occupancy, and documentation of the employment of at least 1,130 Full-time Permanent Employees at the Project Locations, assuming that all project approvals have been completed and funds are available. Payment will be made upon presentation to ESD of an invoice and such other documentation as ESD may reasonably require. Expenses must be incurred on or after December 17, 2007, to be considered eligible project costs. All disbursements must be requested by September 30, 2012.
6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$1,000,000, 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	1,130
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A	B
Reporting Date	Employment Goals
February 1, 2013	1,130
February 1, 2014	1,130
February 1, 2015	1,130
February 1, 2016	1,130

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 retain its employment level of 1,130, which was at risk of relocation to another state.

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 its division headquarters in New Jersey. 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 \$56,433,131;
- Fiscal cost to NYS government is estimated at \$1,000,000;
- Project cost to NYS government per direct job is \$1,721;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$436;
- Ratio of project fiscal benefits to costs to NYS government is 56.43:1;
- Fiscal benefits to all governments (state and local) are estimated at \$95,043,868;
- Fiscal cost to all governments is \$1,000,000;
- All government cost per direct job is \$1,721;
- All government cost per total job is \$436;
- The fiscal benefit to cost ratio for all governments is 95.04:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$490,441,776, or \$213,809 per job (direct and indirect);
- The economic benefit to cost ratio is 490.44:1;
- Project construction cost is \$7,375,267, which is expected to generate 69 direct job years and 49 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 2.97 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is one 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

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. Therefore, 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
Benefit-Cost Analysis

January 20, 2012

Greece (Finger Lakes Region – Monroe County) – Ortho Clinical Diagnostics 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 Ortho Clinical Diagnostics 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 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 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, President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Ortho Clinical Diagnostics, a Johnson & Johnson Company, a grant for a total amount not to exceed One Million Dollars (\$1,000,000) 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 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 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 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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January 20, 2012

Greece (Finger Lakes Region – Monroe County) – Ortho Clinical Diagnostics 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 Ortho Clinical Diagnostics 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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