

FOR CONSIDERATION

May 23, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Syracuse (Onondaga County) – Hartford Fire Insurance Company Central New York 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

General Project Plan

I. Project Summary

Grantee: Hartford Fire Insurance Company (“Hartford Fire” or the “Company”)

ESD* Investment: A grant of up to \$366,000 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: 300 South State Street, Syracuse, Onondaga County

Proposed Project: Lease of additional office space, renovations and purchase and installation of equipment and machinery.

ESD Incentive Offer Accepted: October 4, 2007

Project Completion: May 2010

Number of Employees at Project Location:
 Initial employment: 639
 Current employment level: 490
 Minimum employment through January 1, 2018: 468

Grantee Contact: Toby Faber, Project Manager
 One Hartford Plaza
 Hartford, CT 06155
 Phone: (860) 547-5640
 Fax: (860) 547-5966

Anticipated
 Appropriation
 Source: Empire State Economic Development Fund

ESD Project No.: V808

Project Team: Origination Steven Gold
 Project Management Brendan Healey
 Affirmative Action Helen Daniels
 Finance Ross Freeman
 Environmental Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Renovations	\$5,200,000
Machinery and Equipment	5,246,000
Soft Costs	<u>1,890,000</u>

Total Project Costs \$12,336,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$366,000	3%
Company Equity	<u>11,970,000</u>	<u>97%</u>

Total Project Financing \$12,336,000 100%

III. Project Description

A. Background

The Hartford Financial Services Group, Inc. (“The Hartford”) is a diversified insurance and financial services company headquartered in Connecticut. It is among the largest providers of investment products, individual life, group life and group disability insurance products, and property and casualty insurance products in the United States, with 26,000 employees and \$1.7 billion in net income in 2010. Hartford Fire Insurance Company, founded in 1810, is its oldest subsidiary and operates in the property and casualty area. Hartford Fire provides (1) workers’ compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock, and fidelity and surety coverages to commercial accounts throughout the United States; (2) professional liability coverage and directors and officers liability coverage, as well as excess and surplus lines business, which are not normally written by standard commercial lines insurers; (3) automobile, homeowners and home-based business coverage to individuals throughout the United States; and (4) insurance-related services.

The property and casualty market is highly competitive. Because many of Hartford Fire’s products include an investment component, additional competitors can be found among securities firms, investment advisors, mutual funds, banks and other financial institutions in addition to other insurance companies. In recent years, there has been substantial consolidation and convergence among companies in the insurance and financial services industries resulting in increased competition from large, well-capitalized insurance and financial services firms that market products and services similar to the Company’s. Larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. Hartford Fire seeks to distinguish itself through its product depth and innovation, distribution capacity, customer service expertise, and technology for ease of doing business. The Company is working to strike a balance between profitability and new business growth. Given increased competition, adding customer value by streamlining sales and service management processes and increasing the ease of doing business will be critical in distinguishing Hartford Fire’s offerings from competitors.

Hartford Fire’s Syracuse office had consisted of approximately 115,000 square feet and the lease was expiring at the end of 2008. In light of its operational strategies, the Company reviewed options including disbursing employees to a number of existing locations with excess capacity including locations in Florida, Illinois and Connecticut or maintaining a continued presence at its Syracuse location and performing a major renovation. In September 2007, ESD offered the Company a grant to assist with the cost of the project in Syracuse which was accepted in October 2007. In October 2010, ESD revised the grant to \$440,000 due to reduced employment resulting from economic pressures and the Company’s commitment to retain 565 jobs. In February 2011, ESD revised the grant to \$366,000 due to a further employment reduction resulting from the sale of one of Hartford Fire’s business units and the Company’s commitment to retain 468 jobs. Without ESD’s assistance, the Company may have relocated this operation

outside New York State.

In November 2008, ESD's Directors approved a \$500,000 grant to Hartford Fire for a project in Mohawk Valley to construct and outfit a new facility in order to consolidate operations of two existing facilities. This grant was subsequently reduced to \$435,000 due to a decision to not include Full-Time Permanent Employees that reported to the Mohawk Valley project location but worked remotely outside of New York State. The Company has received the first disbursement of \$217,500 of this grant and is currently in good standing.

B. The Project

Hartford Fire has increased its presence at 300 State Street and is now leasing approximately 122,300 square feet in the building. In addition, the Company upgraded the space to improve the working environment and to bring the facility's atmosphere up to The Hartford's standards. The Company conducted leasehold improvements, and installed new furniture, fixtures, and information technology equipment. As a result of the project, Hartford Fire's employees will have better synergy and productivity. The project began in Fall 2007 and was completed in May 2010. As a result of the project, 468 jobs will be retained by the Company.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$366,000 capital grant (\$3,660) and 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 since the date of the ESD Directors' approval.
3. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed after October 4, 2007. 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 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 \$366,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$183,000) will be disbursed upon documentation of real estate, machinery and equipment and soft project costs totaling \$12,000,000, completion of the project substantially as described in these materials, and documentation of the employment of at least 468 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 (\$91,500) will be disbursed no sooner than 12 months after the date the Initial Disbursement was made, upon documentation of the employment of at least 468 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 (\$91,500) will be disbursed no sooner than 24 months after the date the Initial Disbursement was made, upon documentation of the employment of at least 468 Full-time Permanent Employees at the Project Location, 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 4, 2007 to be considered eligible project costs. All disbursements must be requested by April 1, 2014.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$366,000, 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) 90% of the disbursed amount if the Employment Shortfall occurred in the second full calendar year after the disbursement was made;
- (iii) 80% of the disbursed amount if the Employment Shortfall occurred in the third full calendar year after the disbursement was made;
- (iv) 70% of the disbursed amount if the Employment Shortfall occurred in the fourth full calendar year after the disbursement was made;
- (v) 60% of the disbursed amount if the Employment Shortfall occurred in the fifth full calendar year after the disbursement was made.
- (vi) 50% of the disbursed amount if the Employment Shortfall occurred in the sixth full calendar year after the disbursement was made.
- (vii) 40% of the disbursed amount if the Employment Shortfall occurred in the seventh 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.

Up to 15% of the Grantee’s required number of Full-time Permanent Employees can report to the Project Location but work remotely from other locations in New York State.

Baseline Employment	468
---------------------	-----

A	B
Reporting Date	Employment Goals
February 1, 2012	468
February 1, 2013	468
February 1, 2014	468
February 1, 2015	468
February 1, 2016	468
February 1, 2017	468
February 1, 2018	468

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 468.

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; the Company had excess capacity in Florida, Illinois and Connecticut and considered moving these jobs to one or more of those locations.

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 \$12,393,288;
- Fiscal cost to NYS government is estimated at \$568,648;
- Project cost to NYS government per direct job is \$1,636;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,307;
- Ratio of project fiscal benefits to costs to NYS government is 21.79:1;
- Fiscal benefits to all governments (state and local) are estimated at \$21,094,900;
- Fiscal cost to all governments is \$777,628;
- All government cost per direct job is \$2,237;
- All government cost per total job is \$1,787;
- The fiscal benefit to cost ratio for all governments is 27.13:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$116,409,960, or \$267,585 per job (direct and indirect);
- The economic benefit to cost ratio is 149.70:1;
- Project construction cost is \$7,099,000 which is expected to generate 70 direct job years and 46 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.25 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

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. Hartford Fire Insurance 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

May 23, 2011

Syracuse (Onondaga County) – Hartford Fire Insurance Company Central New York 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 Hartford Fire Insurance Company Central New York 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, the President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Hartford Fire Insurance Company a grant for a total amount not to exceed Three Hundred Sixty-Six Thousand Dollars (\$366,000) 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 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 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.

* * *