

FOR CONSIDERATION

September 15, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Horseheads (Southern Tier Region - Chemung County) – Chemung County Industrial Development Agency Capital/Sikorsky Hawk Works Expansion – 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: Chemung County Industrial Development Agency
("Chemung County IDA" or the "Agency")

Beneficiary
Company: Sikorsky Aircraft Corporation ("Sikorsky" or the "Company")

ESD* Investment: A grant of up to \$800,000 to be used for a portion of the cost to redevelop and renovate an existing facility and purchase machinery and equipment.

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

Project Location: 17 Aviation Drive, Horseheads, Chemung County

Proposed Project: Renovation and redevelopment of a 120,000-square-foot facility into the

Sikorsky Military Completion Center North at the Elmira Corning Regional Airport by Chemung County IDA to house a portion of Sikorsky's helicopter manufacturing, engineering and administration and the purchase of related machinery and equipment.

ESD Incentive Offer Accepted: July 23, 2007

Project Completion: December 2011

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	591
Current employment level:	787
Minimum employment on January 1, 2016:	791

Grantee Contact: George Miner, Executive Director
400 East Church Street
Elmira, NY 14901
Phone: (607) 733-6513
Fax: (607) 734-2698

Beneficiary Contact: Will Shaffer, General Manager
1250 Schweizer Road
Horseheads, NY 14845
Phone: (607) 739-3821
Fax: (860) 353-1184

Anticipated
Appropriation
Source: Empire State Economic Development Fund

ESD Project No.: V672

Project Team:	Origination	Kevin McLaughlin
	Project Management	Robin Alpaugh
	Affirmative Action	Denise Ross
	Finance	Amit Nihalani
	Environmental	Soo Kang

Regional Council: The Southern Tier Regional Council has been made aware of this item.

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Building Renovation	\$7,200,000
Facility Acquisition	3,000,000
Equipment	1,600,000
Construction Administration	400,000
Engineering	400,000
Relocation	<u>100,000</u>
 Total Project Costs	 <u>\$12,700,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD EDF Grant (V672)	\$800,000	6%	
ESD NYSEDAP Grant (W280)*	900,000	7%	
Chemung County IDA**	<u>11,000,000</u>	<u>87%</u>	4.85%/12 yrs/bank first lien on RE
 Total Project Financing	 <u>\$12,700,000</u>	 <u>100%</u>	

* To be presented to the Directors separately.

** Consists of an \$11 million construction loan from Five Star Bank.

III. Project Description

A. Background

Grantee Background

The Chemung County IDA, the grantee on behalf of Sikorsky, was established in 1975 to actively foster economic growth in Chemung County. It is a public benefit corporation consisting of a seven-member board of directors who are appointed by the county executive and ratified by the legislature. The Agency provides eligible projects with a variety of tax incentives, financing and/or related benefits, including industrial revenue bonds, real property and sales and mortgage tax abatements, as well as low-interest loans. The Agency utilizes fees charged to project applicants to purchase land and buildings to facilitate future development, such as the development of the Airport Corporate Park. Funds are also used to construct industrial infrastructure such as roads, rail lines and water and sewer extensions/facilities. In 2010, the Agency's budget was \$1.6 million.

Recent successful Agency projects include the Sikorsky Hawk Works expansion, General Revenue Corporation and Swiss-based SYNTHES' attraction projects, CVS Rx Services new regional distribution center, and the recent out-of-state attraction of DeMet's Candy manufacturing facility to the Agency's Airport Corporate Park.

Beneficiary Background

Sikorsky Aircraft Corporation of Stratford, Connecticut acquired the Schweizer Aircraft Corporation in 2004. Schweizer has been designing and manufacturing aircrafts in New York since 1930. Schweizer manufactured a variety of gliders or sail planes as well as agricultural aircraft and in 1983, it produced its first helicopter. Through 2004, Schweizer manufactured commercial helicopters, motorized gliders and unmanned helicopters used for reconnaissance by the military on its 47-acre parcel adjacent to the Elmira Corning Regional Airport. In 2007, with the assistance of ESD and the Chemung County IDA, Sikorsky opened its new 100,000-square-foot Hawk Works facility to house a new helicopter manufacturing and assembly operation at the airport. ESD provided a \$500,000 grant (U154) for this \$17.3 million project that resulted in the retention of 491 jobs and the creation 100 new jobs. These funds have been fully disbursed and the project was successfully completed.

In July 2010, Sikorsky decided that it would transfer its commercial helicopter manufacturing operations to Pennsylvania and that the Chemung County location would be dedicated to military contracts. Two months later, Sikorsky announced that the Company would expand its Elmira Corning Regional Airport operations into the former Wings of Eagles aircraft museum (the "Museum") building, currently owned by the county and utilize a signed ESD offer from July 2007 to assist with the project. The Museum's static displays were relocated to the nearby 15,000-square-foot vacant hangar in the Airport Corporate Park while the vintage aircraft have been relocated on the airport grounds. ESD will assist with an Empire State Economic Development Fund grant in the amount of \$800,000 to facilitate the renovations within 120,000-square-feet of existing building and hangar space at the airport as part of this overall expansion project. The Chemung County IDA also secured a New York State Economic Development Assistance Program grant in the amount of \$900,000, which will be presented separately to the ESD Directors for approval. This project would have not likely taken place in the State without ESD assistance, which will lower the project finance costs, due to the fact that the Company has several plants in the Northeast that could have accommodated the expansion.

B. The Project

The Company has outgrown its most recent expansion which opened in 2007, and is now moving into the former Museum. In an effort to retain Sikorsky, Chemung County government, in conjunction with the Chemung County IDA, has secured ownership of the former Wings of Eagles aircraft museum at the Elmira Corning Regional Airport and will assist relocating the Museum to a new location.

The Chemung County IDA has leased the former Museum facility from the county and will redevelop a total of 120,000 square feet for use as Sikorsky's customer delivery center and an International Military Completion Center of Excellence with offices, conference rooms for administration and engineering. The main hangar area with 65,000 square feet will be reconfigured into manufacturing space to support Black Hawk, Fire

Scout and reconnaissance aircraft production. Renovations began in March 2011 and total project costs are expected to be \$12.7 million, including building acquisition and renovation related expenses, machinery and equipment, and relocation costs. ESD funds will assist with facility renovations and the purchase of machinery and equipment. Local construction management company, Welliver, was selected through a private bidding process to manage the renovations.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Grantee shall reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Grantee will demonstrate no material or adverse changes in its financial condition prior to disbursement.
3. The Grantee will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed after the Grantee's acceptance of ESD's offer. Equity is defined as cash injected into the project by the Grantee or by investors, and should be auditable through Grantee financial statements or Grantee accounts, if so requested by ESD.
4. Prior to disbursement, the Beneficiary 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. Funds will be disbursed as follows:

Up to \$800,000 will be disbursed to Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 25% of the grant (\$200,000) upon documentation of \$1,500,000 in eligible project costs and documentation of the employment of at least 591 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 50% of the grant (\$400,000) upon completion of the project substantially as described in these materials as evidenced by a certificate of occupancy, documentation of an additional \$8,500,000 in eligible

project costs (total documented costs of \$10,000,000), and documentation of the employment of at least 691 Full-time Permanent Employees at the Project Location (Employment Increment of 100), 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 (\$200,000) upon documentation of the employment of at least 791 Full-time Permanent Employees at the Project Location (Employment Increment of 100), 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 July 23, 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 \$800,000, 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, Beneficiary 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 Beneficiary'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	591
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A	B
Reporting Date	Employment Goals
February 1, 2012	691
February 1, 2013	791
February 1, 2014	791
February 1, 2015	791
February 1, 2016	791

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 591 jobs and create 200 new jobs.

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

Without ESD assistance to lower costs and make the Company's facility competitive with other locations in Connecticut, Pennsylvania, Florida or Alabama, the cost would have been too high 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 \$6,693,742;
- Fiscal cost to NYS government is estimated at \$1,700,000;
- Project cost to NYS government per direct job is \$10,499;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$6,643;
- Ratio of project fiscal benefits to costs to NYS government is 3.94:1;
- Fiscal benefits to all governments (state and local) are estimated at \$16,463,122;
- Fiscal cost to all governments is \$1,700,000;
- All government cost per direct job is \$10,499;

- All government cost per total job is \$6,643;
- The fiscal benefit to cost ratio for all governments is 9.68:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$66,909,793, or \$261,452 per job (direct and indirect);
- The economic benefit to cost ratio is 39.36:1;
- Project construction cost is \$8,000,000 which is expected to generate 82 direct job years and 34 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.57 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 2 year.

(See Project Summary Benefit-Cost Evaluation attached for detail and definitions.)

VI. Environmental Review

The Chemung County Industrial Development Agency, 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.

VII. Affirmative Action

ESD's Non-discrimination and Affirmative Action policy will apply. The Grantee is encouraged to use its best efforts 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.

VIII. 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.

IX. Additional Submissions to Directors

Resolutions
 New York State Map
 Project Finance Memorandum
 Cost-Benefit Analysis

September 15, 2011

Horseheads (Southern Tier Region - Chemung County) – Chemung County Industrial Development Agency Capital /Sikorsky Hawk Works Expansion – 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 Chemung County Industrial Development Agency Capital/Sikorsky Hawks Works Expansion – 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 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 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 or his designee(s) be, and each of them hereby is, authorized to make to Chemung County Industrial Development Agency a grant for a total amount not to exceed Eight Hundred Thousand Dollars (\$800,000) 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 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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September 15, 2011

Horseheads (Southern Tier Region - Chemung County) – Chemung County Industrial Development Agency Capital/Sikorsky Hawk Works Expansion – 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 Chemung County Industrial Development Agency Capital/Sikorsky Hawk Works Expansion – 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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FINANCE MEMORANDUM

TO: Frances Walton

FROM: Amit Nihalani
Sheila Robinson

DATE: July 11, 2011

RE: Chemung County Industrial Development Agency

Grantee

- Name: Chemung County Industrial Development Agency
- Corporate Location: Elmira, New York
- Corporate Form: Non-profit organization
- Nature of Business: To foster economic growth in Chemung County.

Financial Information

- Industry: **Administration of General Economic Programs**
- NAICS Code: 926110
- ESD credit score: Historical 1 (Marginal)
 - Profitability:
 - Sales: Increasing over 3-year historical period.
 - Profit Margin: Above the industry median in most recent year.
 - EBITDA: Increasing over the 3 year historical period.
 - Net Income: Increasing over 3 year historical period.
 - Liquidity:
 - Current ratio: Below the industry median and below one.
 - Solvency:
 - Total debt/total assets: Above the industry median and greater than 65%.
 - EBITDA/Debt Service: Weak

**Chemung County Industrial Development Agency
Years Ending December 31**

	Industry Median	2008	2009	2010	2011 *
Net Sales		2,129,038	4,400,861	4,175,940	1,705,886
EBITDA		697,259	2,043,124	2,691,219	1,321,407
Pre-tax Profit		-688,684	376,891	727,779	966,374
Pre-tax profit/net sales	3.20%	-32.35%	8.56%	17.43%	56.65%
Net Income		-688,684	376,891	727,779	966,374
Current Assets		386,669	11,195,814	2,258,973	
Current Liabilities		1,139,021	6,251,445	2,695,270	
Current Ratio	2.10	0.34	1.79	0.84	
Total Assets		20,039,626	30,831,235	27,470,675	
Long-term Debt		12,826,053	21,354,280	18,456,316	
Total Debt		12,826,053	21,354,280	18,456,581	
Total Liabilities		13,089,766	23,869,402	19,416,145	
Net Worth		6,949,860	6,961,833	8,054,530	
Total debt/total assets	0.29	0.64	0.69	0.67	
EBITDA/Debt Service		0.41	0.42	0.86	

* Through June 30

Additional Information

- The current ratio declined in 2010 primarily because restricted cash was used to pay down debt and grant money was received and used for project reimbursements.
- The organization is highly leveraged. In order to improve its financial position, subsequent to December 31, 2010, three of its outstanding loans with a balance of \$10.2MM, were restructured with a lower interest rate. Also, the organization borrowed an additional \$10MM to finance the construction of an expansion to a Schweizer Aircraft facility. The debt is expected to be serviced from lease payments on this facility.

ESD Credit Rating Definitions:

Rating (Score)	Definition
Very Good (5)	The Company is strong in all 3 areas of profitability, liquidity, and long-term solvency.
Good (4)	The Company is extremely solvent and liquid.
Satisfactory (3)	The Company is strong in the areas of profitability and liquidity, but not long-term solvency.
Fair (2)	The Company is strong in only one of the areas of profitability, liquidity, and long-term solvency.
Marginal (1)	The Company is not strong in any of the areas of profitability, liquidity, and long-term solvency.
Poor (0)	The Company is very weak in all areas of profitability, liquidity, and long-term solvency.

