

FOR CONSIDERATION

August 19, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Olean (Cattaraugus County) – Dresser-Rand Capital – JOBS Now Program  
(Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Section 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: Dresser-Rand Company (“D-R” or the “Company”)

ESD\* Investment: A grant of up to \$2,000,000 to be used for a portion of the cost of  
construction costs.

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

Project Location: Paul Clark Drive, Olean, Cattaraugus County

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

Proposed Project: Construction of a new state-of-the-art technology research and development  
and headquarters facility.

ESD Incentive Offer Accepted: March 11, 2008

Project Completion: June 30, 2009

Number of Employees at Project Location:

Initial employment (at time of ESD Incentive Offer):	552
Current employment level:	1,009
Minimum employment on January 1, 2011:	672

Grantee Contact: Mr. James Garman, Vice President and Chief Administrative Officer  
West Tower, Suite 1000, 10205 Westheimer Road  
Houston, TX 77042  
Phone: (713) 354-6100  
Fax: (713) 354-6110

Anticipated  
Appropriation  
Source: JOBS Now Program

ESD Project No.: V734

Project Team:	Origination	Robert Iszard
	Project Management	Jean Bly
	Affirmative Action	Helen Daniels
	Finance	Ross Freeman
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Construction Costs	\$12,660,413
Furniture, Fixtures and Equipment	1,533,000
Voice and Data	<u>575,000</u>
Total Project Costs	<u>\$14,768,413</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$ 2,000,000	14%
Company Equity	<u>12,768,413</u>	<u>86%</u>
Total Project Financing	<u>\$14,768,413</u>	<u>100%</u>

III. Project Description

A. Background

D-R, a publicly-traded company, is a leader in energy conversion technology involving the design, manufacture and marketing of centrifugal and reciprocating compressors, steam turbines, expanders, gas turbines and control systems for the oil, gas, petrochemical and industrial process industries. D-R's heritage dates back to the 1840's in the form of Ingersoll-Rand in Painted Post (Steuben County), The Moore Steam Company in Wellsville (Allegany County) and Clark Brothers

in Olean (Cattaraugus County). Today, the Company maintains 64 sales offices, 33 service centers and 12 manufacturing operations in 26 countries. D-R currently employs approximately 6,400 people worldwide. This includes over 2,300 people employed in New York's Southern Tier facilities in Olean, Wellsville and Painted Post.

D-R's customer base for new units constructed to client specifications, aftermarket parts and services is primarily independent oil and gas producers and distributors worldwide; national oil and gas companies; major energy companies; and independent refiners, with approximately 59% of the Company's products sold outside of North America. Major foreign customers include Royal Dutch Shell; ExxonMobil; and BP. Major competitors include General Electric Oil & Gas/Nuovo Pignone-Thermodyne; Siemens; Solar Turbines, Inc; and Burckhardt Compression.

In mid-2007, D-R advised ESD that to remain competitive in productivity and employee recruitment, it required the construction of a new, state-of-the art technology research and development and headquarters facility. The current facilities were inefficient and scattered across an 11 acre park. The Company considered constructing a facility in Olean or relocating its research and development and headquarters functions to Houston, TX. The Olean facility has ample acreage for the new construction. However, the Houston facility had ample, affordable leased space and was in close proximity to a majority of Company management. As the Olean facility was at a disadvantage compared to Houston, in October 2007, ESD provided an incentive offer, which the Company accepted on March 3, 2008, resulting in its decision to construct the new facility in the Cattaraugus Empire Zone. As a result, 552 jobs will be retained and 120 new jobs will be created by January 1, 2011. Without this grant, this project would have taken place in Texas.

Since 1991, D-R has received ten training grants from ESD totaling \$6,154,896 and a \$5 million capital grant in 2002. The Company is in compliance with the terms of training grants, however defaulted on the capital grant in 2003 resulting in a repayment of \$1.6 million and a reduction in the job commitment from 3,000 to 2,200 through January 1, 2006 at its three Southern Tier facilities. Currently, D-R employs 2,377 in the Southern Tier including 710 in Painted Post; 658 in Wellsville; and 1,009 in Olean. The current grant benefits the Olean facility.

#### B. The Project

The \$14.7 million project involves the construction of a two-story, 86,000-square-foot building; the acquisition of new furniture, fixtures and equipment and voice and data equipment necessary for a new state-of-the art technology research and development and headquarters facility. The Project is being financed by ESD's grant and Company equity. The project was completed in June 2009 and the Company has already created 457 jobs, exceeding its commitment to create 120 new jobs by January 1, 2011.

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 \$11,073,041;
- Fiscal cost to NYS government is estimated at \$10,619,769;
- Project cost to NYS government per direct job is \$52,565;
- Project cost to NYS government per job (direct plus indirect ) is estimated at \$32,741;
- Ratio of project fiscal benefits to costs to NYS government is 1.04:1;
- Fiscal benefits to all governments (state and local) are estimated at \$19,025,970;
- Fiscal cost to all governments is \$10,619,769;
- All government cost per direct job is \$52,565;
- All government cost per total job is \$32,741;
- The fiscal benefit to cost ratio for all governments is 1.79:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$112,737,180 or \$347,572 per job (direct and indirect);
- The economic benefit to cost ratio is 10.62:1;
- Project construction cost is \$12,660,413 which is expected to generate 130 direct job years and 88 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.61 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 7 years.

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

### C. Financial Terms and Conditions

1. 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. 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.
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 \$2,000,000 will be disbursed to Grantee in three installments as follows:
  - a) an Initial Disbursement of an amount equal to 50% of the grant (\$1,000,000) will be disbursed upon completion of the project as substantially described in these materials as evidenced by a certificate of occupancy; documentation of construction project costs totaling \$12 million; and documentation of the employment of at least 552 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 (\$500,000) will be disbursed upon documentation of the employment of at least 612 Full-time Permanent Employees at the Project Location (Employment Increment of 60), provided Grantee is otherwise in compliance with program requirements;
  - c) a Third Disbursement of an amount equal to 25% of the grant (\$500,000) will be disbursed upon documentation of the employment of at least 672 Full-time Permanent Employees at the Project Location (Employment Increment of 60), 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. Expenditures must be incurred on or after March 11, 2008 to be considered eligible project costs. Disbursements must be requested by no later than April 1, 2011.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$2,000,000, 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 one-hundred percent (100%) of the Employment Goal set forth in Column B (an "Employment Shortfall"), then upon demand by ESD, the entire Grant will be subject to recapture by ESD.

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	552
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A	B
Reporting Date	Employment Goals
February 1, 2010	552 + X + Y
February 1, 2011	552 + X + Y
February 1, 2012	552 + X + Y
February 1, 2013	552 + X + Y

X = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section 6(b) above (i.e. X=60, and Employment Goals shall equal [552 + X = 612] 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 6(c) above (i.e. Y=60, and Employment Goals shall equal [552 + X + Y = 672] 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

The project meets the statutory requirement of a JOBS Now 100 Project because the Company will create at least 100 new full-time permanent private sector jobs. No residential relocation is required as 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.

#### VI. Affirmative Action

ESD's Non-Discrimination and Affirmative Action policy will apply. Dresser-Rand 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

August 19, 2009

Olean (Cattaraugus County) – Dresser-Rand Capital – JOBS Now Program (Capital Grant)  
– Findings and Determinations Pursuant to Section 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 Dresser-Rand Capital – JOBS Now Program (Capital Grant) Project (the “Project”), the Corporation hereby determines pursuant to Section 10 (g) of the New York State Urban Development Corporation Act of 1968, as amended (the “Act”), that 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, Chairman and Chief Executive Officer-Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Dresser-Rand Company a grant for a total amount not to exceed Two Million Dollars (\$2,000,000) from the JOBS Now Program, 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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August 19, 2009

Olean (Cattaraugus County) – Dresser-Rand Capital – JOBS Now Program (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 Dresser-Rand Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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