

FOR CONSIDERATION

July 13, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Henrietta (Monroe County) – Harris RF Communications 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: Harris Corporation – RF Communications Group

ESD* Investment: A grant of up to \$4,000,000 to be used for a portion of the cost of renovations.

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

Project Locations: 1350 Jefferson Road, Henrietta, Monroe County**
1680 University Avenue, Rochester, Monroe County
97 Humboldt Street, Rochester, Monroe County

** Project activity site; others are job-retention sites

Proposed Project: Purchase and renovation of a building to house approximately half of the Company’s Rochester-area workforce.

ESD Incentive Offer Accepted: March 12, 2010

Project Completion: June 2011

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	2,000*
Current employment level:	2,300
Minimum employment through January 1, 2016:	2,000*

* Includes up to 100 Full-Time Contract Employees

Grantee Contact: Michael Miller, Controller, Operations & Engineering
1680 University Avenue
Rochester, New York 14580
Phone: (585) 244-5830
Fax: (585) 242-4756

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: W790

Project Team:	Origination	Greg Parker
	Project Management	Edward Muszynski
	Affirmative Action	Helen Daniels
	Finance	Amit Nihilani
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Building Purchase	\$18,700,000
Design & Construction	32,834,500
Furnishings & Information Technology	<u>3,165,500</u>

Total Project Costs \$54,700,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$4,000,000	1%
Company Equity	<u>50,700,000</u>	<u>99%</u>
Total Project Financing	<u>\$54,700,000</u>	<u>100%</u>

III. Project Description

A. Background

RF Communications Group (“Harris RF” or the “Company”), a wholly owned subsidiary of Harris Corporation (the “Parent”), started in Rochester in 1960. The Company specializes in design and manufacturing of secure radio products, systems and networks. In addition, it also designs and manufactures encryption solutions for military, government, and commercial organizations. In addition to its Rochester headquarters, Harris RF maintains facilities and employs a total of 1,300 people in Chelmsford, MA; Columbia, MD; Lynchburg, VA; and San Diego, CA. The Parent, a publicly traded company headquartered in Melbourne, FL serves military and government agencies in the U.S. and over 150 nations, and employs approximately 16,000 people.

Harris RF’s manufacturing and distribution were conducted out of four buildings in the City of Rochester, requiring the shipment of goods between these sites. This was costly and inefficient, combined with concern over fire hazards at the old buildings. The Company evaluated alternative locations, including available sites in Melbourne, FL, Lynchburg, VA, and Rochester-area locations. In order to reduce costs and make the project feasible in New York, the Company approached ESD for financial assistance. ESD offered a \$4 million capital grant, which the Company accepted in March 2010. As a result, the Company purchased a former Xerox Corporation building in the Town of Henrietta to consolidate certain operations.

In 2006, ESD approved a \$400,000 capital grant to the Company for a portion of the cost of a building acquisition and renovations of the 97 Humboldt Street site. The project was successfully completed and the funds fully disbursed.

B. The Project

The Company purchased and renovated a 573,000-square-foot-building, where it relocated its manufacturing, supply chain, product service, logistics, and engineering operations. The project included asbestos abatement, interior demolition of partitions and new construction of offices, production lines, rest rooms, HVAC and electrical systems, and new truck docks. The Company also installed new information technology systems and constructed a supplier village which houses its vendors on site.

The Company relocated half of its Rochester workforce to the newly renovated building. The Company has vacated four buildings (three of which it leased), and 1,100 employees will now be situated at the new site. Management functions continue to be housed in two other buildings that Harris owns in Rochester. The Company will retain 900 other employees in Rochester, for a total of 2,000 retained jobs in the Rochester/Monroe County area, thereby assuring the long-term viability of one of Rochester’s major companies.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$4,000,000 capital grant (\$40,000) 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. Harris Corporation will guarantee the grant repayment obligation of its subsidiary, Harris Corporation – RF Communications Group, 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 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 (including up to 100 Full-Time Contract 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.

A Full-time Contract Employee is a full-time private sector employee (or self-employed person) who is not on the Grantee's payroll but who works exclusively for the Grantee at the Project Location for a minimum of 35 hours per week for not less than four consecutive weeks, providing services that would otherwise be provided by a Full-time Permanent Employee. The position held by a Full-time Contract Employee must be a year-round position.

6. Up to \$4 million will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$2 million) will be disbursed upon documentation of real estate acquisition and design/construction

project costs totaling \$54,700,000, and a certificate of occupancy, and documentation of the employment of at least 1,900 Full-time Permanent Employees and 100 Full-time Contract Employees at the Project Locations, assuming that all project approvals have been completed and funds are available;

- b) a Second Disbursement of 25% of an amount equal to the grant (\$1 million) will be disbursed no sooner than six months after the date the Initial Disbursement was made, upon documentation of the employment of at least 1,900 Full-time Permanent Employees and 100 Full-time Contract Employees at the Project Locations, provided Grantee is otherwise in compliance with program requirements;
- c) a Third Disbursement of an amount equal to 25% of the grant (\$1 million) will be disbursed no sooner than 12 months after the date the Initial Disbursement was made, upon documentation of the employment of at least 1,900 Full-time Permanent Employees and 100 Full-time Contract Employees at the Project Locations, provided Grantee is otherwise in compliance with program requirements.

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 March 12, 2010, to be considered eligible project costs. All disbursements must be requested by April 1, 2014.

- 7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$4,000,000, 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.
- 8. 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	2,000*
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A	B
Reporting Date	Employment Goals
February 1, 2012	2,000*
February 1, 2013	2,000*
February 1, 2014	2,000*
February 1, 2015	2,000*
February 1, 2016	2,000*

*Includes up to 100 Full-Time Contract Employees

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 2,000.
2. The proposed project would be unlikely to take place in New York State without the requested assistance.
The Company considered relocating some of its operations to available sites in Florida or Virginia. 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 \$111,889,922;
- Fiscal cost to NYS government is estimated at \$4,250,000;
- Project cost to NYS government per direct job is \$3,853;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$802;
- Ratio of project fiscal benefits to costs to NYS government is 26.33:1;
- Fiscal benefits to all governments (state and local) are estimated at \$187,349,370;
- Fiscal cost to all governments is \$4,500,000;
- All government cost per direct job is \$4,079;
- All government cost per total job is \$850;
- The fiscal benefit to cost ratio for all governments is 41.63:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$868,654,796, or \$164,018 per job (direct and indirect);
- The economic benefit to cost ratio is 193.03:1;
- Project construction cost is \$32,834,500 which is expected to generate 297 direct job years and 213 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 3.82 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 Town of Henrietta 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 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.

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. Additional Submissions to Directors

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

July 13, 2011

Henrietta (Monroe County) – Harris RF Communications 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 Harris RF Communications 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 Harris Corporation – RF Communications Group a grant for a total amount not to exceed Four Million Dollars (\$4,000,000) 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 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.

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July 13, 2011

Henrietta (Monroe County) – Harris RF Communications 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 Harris RF Communications 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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