

FOR CONSIDERATION

May 23, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Chemung (Chemung County) – CVS Rx Services 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

---

General Project Plan

I. Project Summary

Grantee: CVS Rx Services, Inc. (“CVS Rx” or the “Company”)

ESD\* Investment: A grant of up to \$4,000,000 to be used for a portion of the cost associated with the acquisition of new machinery and equipment.

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

Project Location: One CVS Drive, Chemung, Chemung County

NYS Empire Zone  
(or equivalent): Elmira

Proposed Project: Construct and equip a new regional distribution facility in Chemung County.

ESD Incentive Offer Accepted: July 1, 2008 (initial offer); May 29, 2009 (revised offer)

Project Completion: June 2011

Number of Employees at Project Location:

Initial employment (at time of ESD Incentive Offer):	0
Current employment level:	64
Minimum employment on January 1, 2013:	600

Grantee Contact: Dixi Talke, Project Manager  
One CVS Drive  
Chemung, NY 14825  
Phone: (401) 770-3526  
Fax: (401) 652-9267

Anticipated  
Appropriation

Source: Jobs Now Program

ESD Project No.: W351

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

## II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Land Acquisition	\$8,800,000
Building Construction	60,000,000
Machinery & Equipment	40,263,988
Infrastructure	11,036,336
Soft Costs	<u>521,676</u>
Total Project Costs	<u>\$120,622,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$4,000,000	3.0%	
Community Development Block Grant	750,000	0.5%	
Infrastructure Bonds*	7,772,000	7.0%	5.75%/12 yrs/Unsecured
US Dept of Commerce Grant	1,400,000	1.0%	
NYSEG Grant**	1,900,000	2.0%	
Chemung County IDA***	700,000	0.5%	
Company Equity	<u>104,100,000</u>	<u>86.0%</u>	
Total Project Financing	<u>\$120,622,000</u>	<u>100.0%</u>	

\* Chemung County IDA issued bonds which were purchased independently of the project by CVS; funds used to assist in establishing project site roads, electric, gas, sewer and water.

\*\* New York State Electric and Gas Corporation (NYSEG) grant made to the Chemung County IDA to assist with establishing project site electric and gas service.

\*\*\* Chemung County IDA land donation.

### III. Project Description

#### A. Background

The first CVS store opened in 1963 in Lowell, Massachusetts offering health and beauty products. Over the next 45 years, the business grew steadily through expansions and competitor buyouts. By 1998, the number of stores totaled 4,100 in 24 states. In 2008, CVS Rx Services, Inc., was formed as a subsidiary of CVS Caremark Corporation (“CVS” or the “Parent”), a publicly-traded company headquartered in Woonsocket, Rhode Island. Today, CVS is an integrated pharmacy services provider, combining a pharmaceutical services company with a pharmacy chain. It provides pharmacy services through over 7,000 CVS/pharmacy and Longs Drugs stores across the country; its pharmacy benefit management, mail order and specialty pharmacy division, Caremark Pharmacy Services; its retail-based health clinic subsidiary, MinuteClinic; and its online pharmacy, CVS.com. The Parent was #18 in the 2010 Fortune 500 list of the largest companies in the U.S. and is the largest company that has operations solely in the United States.

The Company considered locating its new regional distribution facility in several locations including sites in Pennsylvania. Given the high cost of constructing and equipping a new facility, CVS Rx approached ESD in early 2008 for financial assistance to establish a new warehouse distribution location in Chemung County. ESD responded with a \$4,000,000 capital grant incentive offer, which the Company accepted in May 2009. The Company became certified in 2009 in the Elmira Empire Zone and is eligible to qualify for additional financial incentives. The Empire Zones program, in addition to other local and Federal assistance, was a key component in the decision to locate in New York State. The project will create 600 full-time permanent employees at the new facility.

## B. The Project

The Company acquired 311 acres for the project site in addition to 30 acres that were donated by the Chemung County IDA. A state-of-the-art 751,000-square-foot warehouse/distribution center was constructed on White Wagon Road adjacent to Route 17/I-86 in the Town of Chemung. Total project costs were over \$112 million including construction related expenses, land acquisition, infrastructure and purchase/installation of machinery and equipment. CVS' new facility will provide a regional warehouse hub for its northeast stores. The location is currently receiving product and expects to begin shipping by June. To date, the Company has created 64 new jobs at the Project Location.

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 \$13,092,112;
- Fiscal cost to NYS government is estimated at \$4,000,000;
- Project cost to NYS government per direct job is \$12,446;
- Project cost to NYS government per job (direct plus indirect ) is estimated at \$7,727;
- Ratio of project fiscal benefits to costs to NYS government is 3.27:1;
- Fiscal benefits to all governments (state and local) are estimated at \$21,778,829;
- Fiscal cost to all governments is \$4,000,000;
- All government cost per direct job is \$12,446;
- All government cost per total job is \$7,727
- The fiscal benefit to cost ratio for all governments is 5.44:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$106,446,952, or \$205,629 per job (direct and indirect);
- The economic benefit to cost ratio is 26.61:1;
- Project construction cost is \$71,036,000 which is expected to generate 683 direct job years and 299 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.62 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 2 years.

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

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall 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. CVS Caremark Corporation will guarantee the grant repayment obligation of its subsidiary, CVS Rx Services, Inc., 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. 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 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.
6. Up to \$4,000,000 will be disbursed to the Grantee in three installments as follows:
  - a) an Initial Disbursement of an amount equal to 50% of the grant (\$2,000,000) upon completion of the project substantially as described in these materials as evidenced by a certificate of occupancy, documentation of at least \$90,000,000 in project expenditures (including \$34,000,000 in machinery and equipment costs), and documentation of the employment of at least 300 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 (\$1,000,000) will be disbursed upon documentation of the employment of at least 450 Full-time Permanent Employees at the Project Location (Employment Increment of 150), provided Grantee is otherwise in compliance with program requirements;
  - c) a Third Disbursement of an amount equal to 25% of the grant (\$1,000,000) will be disbursed upon documentation of the employment of at least 600 Full-time

Permanent Employees at the Project Location (Employment Increment of 150), 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 May 29, 2009, to be considered eligible project costs. All disbursements must be requested by April 1, 2013.

6. 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.
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	0
---------------------	---

A	B
Reporting Date	Employment Goals
February 1, 2012	0+X+Y+Z
February 1, 2013	0+X+Y+Z
February 1, 2014	0+X+Y+Z
February 1, 2015	0+X+Y+Z
February 1, 2016	0+X+Y+Z
February 1, 2017	0+X+Y+Z
February 1, 2018	0+X+Y+Z

X = Grantee's Employment Increment that will be the basis of the First Disbursement of the Grant as described in section C.5 above (i.e. X=300, and Employment Goals shall equal  $[0 + X = 300]$  if the First Disbursement is made, in the year such disbursement is made and for each year thereafter). If the First Disbursement has not yet been made then X=0.

Y = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section C.5 above (i.e. Y=150, and Employment Goals shall equal  $[0 + X + Y = 450]$  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 Y=0.

Z = Grantee's Employment Increment that will be the basis of the Third Disbursement of the Grant as described in section C.5 above (i.e. Z=150, and Employment Goals shall equal  $[0 + X + Y + Z = 600]$  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 Z=0.

#### IV. Statutory Basis

The project meets the statutory requirement of a JOBS Now Project because the Company will create at least 300 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

The Chemung County Industrial Development Agency, as lead agency, has completed an environmental review of the proposed CVS 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, which was based on a Generic Environmental Assessment Report dated September 2004 for the development of the Chemung Business Park where the project is located and subsequent Technical Memorandum dated January 27, 2009, found the project would not have a significant effect on the environment. The lead agency issued a Negative Declaration on February 6, 2009. ESD staff reviewed the Negative Declaration and 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. CVS Rx 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

Chemung (Chemung County) – CVS Rx Services 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

---

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 CVS Rx Services 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 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 CVS Rx Services, Inc. a grant for a total amount not to exceed Four Million Dollars (\$4,000,000) 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 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.

\* \* \*

May 23, 2011

Chemung (Chemung County) – CVS Rx Services Capital – Jobs Now Program (Capital Grant) – Determination of No Significant Effect on the Environment

---

RESOLVED, that based on the material submitted to the Directors with respect to the CVS Rx Services Capital – Jobs Now Program (Capital Grant) Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

\* \* \*

## PRELIMINARY FINANCE MEMO

TO: Frances Walton

FROM: Amit Nihalani  
Sheila Robinson

DATE: March 25, 2011

RE: CVS Rx Services

---

### Grantee

- Name: CVS Rx Services, Inc
- Corporate Location: Chemung, NY
- Corporate Form: C-corp. owned by CVS Caremark Corporation (see below)
- Nature of Business: Warehouse/Distribution center for retail healthcare and household products

### Guarantor

- Name: CVS Caremark Corporation
- Corporate Location: Woonsocket, Rhode Island
- Corporate Form: Public Company (Ticker: CVS on NYSE)
- Nature of Business: Provides pharmacy services
  - Major Competitors: Walgreen Company, Rite Aid Corporation, PharMerica Corporation, and Medco Health Corporation

### Financial Information

- Debt rating:
  - Moody's: Baa2
  - Standard & Poor's: BBB+
- Stock price:
  - March 25, 2011: \$33.96
  - 52-week range: \$26.84- \$37.82
- Market capitalization: \$46.46B as of March 25, 2011
- Revenue (3 years): 2010: \$96.4B; 2009: \$98.7B; 2008: \$87.5B
- Earnings (3 years): 2010: \$3.4B; 2009: \$3.7B; 2008: \$3.2B
- Analyst recommendations: RBC Capital Markets: Sector Perform on October 26, 2010

### Additional Information

N/A

