

PETER SHUMLIN
Governor



State of Vermont
OFFICE OF THE GOVERNOR

June 27, 2014

Paul Heintz
Seven Days
PO Box 1664
Burlington, VT 05402

Dear Paul,

Attached please find records we have gathered to date in response to your public records act request dated June 19, 2014. We have redacted certain contact information pursuant to 1 V.S.A. § 317(c)(7).

Please note that, following your conversation with Elizabeth Miller, I have not included various unsolicited emails that may otherwise fall within the subject matter of your request. These include constituent correspondence and emails from individuals who have written to the office with personal stories related to being laid off from IBM. I have also omitted emails involving the Governor's scheduler related to setting up meetings and emails regarding scheduling media interviews. If you are interested in any of the above, please let me know.

Pursuant to 1 V.S.A. § 317(c)(1) and (c)(4), I have withheld as executive privileged certain communications between and among the Governor, his senior staff, and senior appointed advisors at the Agency of Commerce and Community Development as they contain policy advice for the Governor.

For convenience, I have included the responsive emails of Secretary Spaulding in this response. Please note that a search of records of Deputy Secretary Michael Clasen and Chief Performance Officer Susan Zeller yielded no responsive records. If you are interested in the records of other members of the Secretary of Administration's Office, please let us know.

If you feel that any Governor's Office records have been wrongfully withheld, you may appeal to the Governor's Chief of Staff, Elizabeth Miller, at Elizabeth.Miller@state.vt.us. If you feel that any records of Secretary Spaulding have been wrongfully withheld, you may appeal to Secretary Spaulding at Jeb.Spaulding@state.vt.us.

Thank you,

A handwritten signature in black ink, appearing to read "Sarah", with a long horizontal flourish extending to the right.

Sarah London
Counsel to the Governor

Spaulding, Jeb

From: Spaulding, Jeb
Sent: Wednesday, January 08, 2014 9:16 AM
To: Miller, Lawrence
Cc: Miller, Elizabeth
Subject: FW: Innovation and Commercialization Incentive Take III

Lawrence,

I would appreciate a full in-person download on this.

--- Jeb

Sent from my iPhone

Begin forwarded message:

From: "Miller, Lawrence" <Lawrence.Miller@state.vt.us>
Date: January 8, 2014 at 6:54:59 AM EST
To: "Miller, Elizabeth" <Elizabeth.Miller@state.vt.us>
Subject: FW: Innovation and Commercialization Incentive Take III

as you know, we have a meeting with IBM this afternoon which will help tighten things up, but keeping you informed of the developing ideas.

--

Lawrence Miller, Secretary
Agency of Commerce and Community Development
National Life Building, Sixth Floor
Montpelier VT 05620-0501
(802) 828-5204 office
[REDACTED] cell
lawrence.miller@state.vt.us

From: Gosselin, Lisa
Sent: Tuesday, January 07, 2014 7:58 PM
To: Kenney, Fred; Bourgeois, Kiersten; Jones, Kenneth; Frank Cioffi
Cc: Miller, Lawrence; Leriche, Lucy
Subject: RE: Innovation and Commercialization Incentive Take III

Thank you Fred. Lawrence and Lucy, here is the most up to date. Lisa

From: Kenney, Fred
Sent: Tuesday, January 07, 2014 7:46 PM
To: Bourgeois, Kiersten; Jones, Kenneth; Frank Cioffi; Gosselin, Lisa
Subject: RE: Innovation and Commercialization Incentive Take III

All:

Attached is draft 3. I incorporated the 1000 employee level and drafting comments from John Kessler.

Estimated value of each incentive:

Commercialization Incentive: Unknown, but limited to \$3m. If IBM makes \$50 million in eligible R&D incentives, value is \$3 million, if \$30 million, \$3 million, if \$20 million, \$2 million

STEM: \$11,250 per employee (to the employee)

R&D: Unknown. If Federal R&D tax credit is \$50,000, Vt credit would be \$25,000 (benefits Corporate IBM, unless we switch the benefit to reduce property tax)

Here is a compilation of comments/suggestions, whether we have dealt with the comment/suggestion, and how, in the current draft:

- 1) Should we increase the employment level from 200 to something like 1000? It becomes clear that we this is targeted at IBM, but it seems more sensible to tie a huge # of employees to the minimum R&D investment that we are proposing. DONE
- 2) How many STEM employees should we allow? At present, don't we only permit 50/annually? And does that contribute to the \$3million figure that we are generally aiming for? The STEM incentive cost has no impact on the \$3 mil as presently structured. I would support limiting the availability of the STEM incentive (which goes to employees, not the company) to a certain number, maybe 25? That would be a \$281,250 value ($\$1500 \times 150\% = \$2250 \times 5\text{years} = \$11,250$ each person $\times 25$ people = \$281,250)
- 3) An enhanced R&D credit (to 50%) will benefit IBM corporate...but they wouldn't get it w/o VTs incentive. In speaking with KJ, can we make it refundable? Correct. I am not sure a refundable tax credit would help. A refundable tax credit is first applied to reduce existing corporate tax liability, which would benefit corp IBM, then any additional credit is refunded. We could direct that any refund go to IBM/Essex, but I doubt an R&D tax credit will be big enough to reduce IBM's VT Corp Tax to zero, so there would not be anything to refund. What about requiring that any earned Enhanced R&D Tax Credit under this proposal be applied to reduce VT education property taxes? This reduces a cost for IBM Essex.
- 4) I'm guessing that GE doesn't spend as much on R&D (I think that's all done in OH), but we might want to double check to ensure that we aren't opening this up to them. They have about 1400 employees. Do not think there is a way to get this info legally.
- 5) another thing that occurred to me: we are axing the EA credit...by introducing a new IBM one, do we PO EA? Sorry...what is EA and PO?
- 6) I'd vote to increase the number of superSTEMs to about 50. We need to clearly answer their cry for assistance on the WFD/recruitment front. Can only do this if the total number allowed is doubled. I think 50 is the current total allowed.
- 7) anyone know what IBMs corp tax liability in Vt is? That might be another way to approach this...Again, unless they are willing to tell us, no way to get this.
- 8) Tax credits are probably not significantly meaningful to IBM VT as they most likely roll to corporate. See suggestion above re converting value of R&D tax credit to reduce Vt Educ Prop Tax
- 9) They were looking for either savings of \$5m annually or cash or a combination of both. Any ideas on ways we can cut their COSTS?? The obvious one is property taxes. Should we go there?

- 10) Are you seeing the STEM award as part of or in addition to the \$3m? No. the value of the STEM is in no way involved with the \$3m limitation. They are hesitant to use it now but I think we should encourage them.
- 11) Do we have a plan b (perhaps lesser amount) if for some reason they are happy with GMPs proposal or that moves us closer than we thought. We can dial it back, but that will be hard to do once presented to them.
- 12) Is there a way to staircase this so the incentive gets richer toward the end of 5 years? Also we will need to have a plan for when this expires and make sure they are locked in and don't ask for more next year. Can do this by increasing the percentage. But would also have to increase the \$3 limit. Just let me know if you want this and it can be worked in.
- 13) I like Kiersten's 1000 minimum suggestion for employees. Done

Spaulding, Jeb

From: Spaulding, Jeb
Sent: Wednesday, January 08, 2014 9:40 AM
To: Miller, Elizabeth
Cc: Miller, Lawrence
Subject: Re: Innovation and Commercialization Incentive Take III

Good idea.

Jeb Spaulding, via mobile
Secretary of Administration
State of Vermont

On Jan 8, 2014, at 9:36 AM, "Miller, Elizabeth" <Elizabeth.Miller@state.vt.us> wrote:

We should get a Lisa Gosselin and team meeting on schedule; my understanding from Lawrence is that they were meeting again with IBM today so that we should be in a position to do that meeting either later this week or early next.

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Spaulding, Jeb


From: Spaulding, Jeb
Sent: Wednesday, January 22, 2014 5:05 PM
To: Miller, Lawrence
Subject: RE: IBM news and analysis

Thanks.

-----Original Message-----

From: Miller, Lawrence
Sent: Wednesday, January 22, 2014 5:00 PM
To: Miller, Elizabeth; GPS; Porter, Louis; Spaulding, Jeb
Subject: IBM news and analysis

http://www.postbulletin.com/news/local/more-ibm-layoffs-loom-after-disappointing-th-quarter/article_e08680e4-8d7d-5687-bf80-f7ac06953b92.html?mode=jgm

Lawrence Miller, Secretary
VT Agency of Commerce and Community Development


Spaulding, Jeb

From: Spaulding, Jeb
Sent: Thursday, April 03, 2014 12:17 PM
To: Spaulding, Jeb
Subject: Fwd: IBM incentives
Attachments: ATT00001.htm

Jeb Spaulding, via mobile
Secretary of Administration
State of Vermont

Begin forwarded message:

From: "Frank Cioffi" <[REDACTED]>
To: "Spaulding, Jeb" <Jeb.Spaulding@state.vt.us>, "Miller, Elizabeth" <Elizabeth.Miller@state.vt.us>, "Miller, Lawrence" <Lawrence.Miller@state.vt.us>
Subject: IBM incentives

Dear Jeb, Liz and Lawrence,
Would you please forward this email and attachments to the Governor and also please read it yourself as well.

We have been trying to research possible changes at IBM and we have been increasingly hearing from many Vermont employers that they are being aggressively recruited by the State of New York, other states and countries.

Recent economic events in the semiconductor manufacturing industry, dynamic corporate restructuring and employment reductions affected b

Spaulding, Jeb

From: Spaulding, Jeb
Sent: Monday, April 07, 2014 8:45 AM
To: 'David Coates'
Subject: RE: IBM info

We are just finishing up a p package that could be helpful. The biggest question to me is how we get it through the Legislature.

From: David Coates [mailto: [REDACTED]]
Sent: Monday, April 07, 2014 8:21 AM
To: Spaulding, Jeb
Subject: Re: IBM info

Jeb,

I know you got the latest info on IBM from Frank. Please let know what I can do. I can't imagine a sale would only see a gradual reduction of employment at the plant. IBM is a tough negotiator as you well know. It would seem a buyer would have to take quick and drastic measures to capitalize on potential savings.

David

On Apr 6, 2014, at 7:01 PM, Frank Cioffi < [REDACTED] > wrote:

Thanks David. I think time is running out for VT.
The Gov should throw something out to Legislators ASAP.

Sent from my mobile; please excuse brevity, typos, etc.

On Apr 6, 2014, at 1:50 PM, David Coates < [REDACTED] > wrote:

Frank,

Thanks for keeping us in the loop. I did meet with Jeb after our last conversation and followed up last week. I will continue the discussion tomorrow.

Best,

David

On Apr 6, 2014, at 1:40 PM, Frank Cioffi < [REDACTED] > wrote:

Hi Harlan and David,
I am very concerned that a sale of the IBM Semiconductor Manufacturing Division is in the works and could have serious impacts on our Vermont economy.
Attached is research that GBIC has compiled.
I have shared this information w/ the Governor's office and am urging the Administration to propose and move forward legislation

for some economic incentives for IBM Vermont as soon as possible and prior to the session ending.

IBM hired Goldman to assist in selling the division and as our attached research indicates the leading prospect currently in negotiations is Global Foundries. NY State has a huge incentive package already in place for Global Foundries (\$1.8 billion which was initiated in 2011 and still actively being deployed).

I don't think any sitting Vermont elected leader wants to hear the news that IBM Vermont has been sold affecting over 4,000 working Vermonters and our state never even tried to create retention and investment incentives...

I met w/ Jeb & Liz last Thursday and plan to call Liz on Monday. And after talking w/ Liz I intend to talk w/ the Governor to make a last personal pitch as well.

Though we have lost over 4,000 jobs at IBM over the last 15 years it was incremental. A one-time loss of thousands of jobs would deal an economic body blow that will take decades to recover.

Any ideas and/or help you can offer would be welcomed.

This is a serious situation.

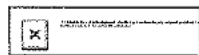
Thanks very much.

Best regards,

Frank

Best regards,

Frank



Frank Cioffi

President

GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.

60 Main Street Burlington, Vermont, USA 05401

Office:

Cell:

email:

Website: www.gbicvt.org

Promoting Good Jobs in a Clean Environment



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<IBM Situation Analysis Package 4-4-14.pdf>

Spaulding, Jeb

From: Spaulding, Jeb
Sent: Tuesday, April 08, 2014 8:14 AM
To: Spaulding, Jeb
Subject: Fwd: IBM

Jeb Spaulding, via mobile
Secretary of Administration
State of Vermont

Begin forwarded message:

From: Frank Cioffi <[REDACTED]>
Date: April 4, 2014 at 10:10:38 AM EDT
To: Liz Miller <elizabeth.miller@state.vt.us>, Jeb Spaulding <Jeb.Spaulding@state.vt.us>
Subject: IBM

Hi Liz and Jeb,
Please see today's WSJ article below....if Vermont plans to do something, it's feeling like the clock is about running out.

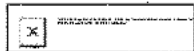
As part of their analysis, due diligence and bid process, each prospective buyer of the IBM semiconductor manufacturing division assets, will have made an operating analysis on site competitiveness, cost savings, new investment and current or new state incentives.

IBM Vermont stacks well on some key operating metrics (labor, expertise, R & D success and facility infrastructure) but Vermont really has nothing in place in public sector financial support for economic incentives, energy cost stabilization, training support and tax abatement.

It would be very wise for an announced plan of action to support the Vermont IBM workforce and campus assets, whomever the owner is (IBM or a successor), to come out soon.

The State of New York has a huge incentive package in place for Global Foundries and the Albany area already in place.

Best regards,
Frank



Frank Cioffi
President
GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401
Office: [REDACTED]
Cell: [REDACTED]
email: [REDACTED]
Website: www.gbicvt.org



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Globalfoundries Emerges as Lead Candidate to Buy IBM Chip Plants

Taiwan Semiconductor Said to Have Dropped Out of Talks

By
SPENCER E. ANTE,

DANA CIMILLUCA and

DANA MATTIOLI
Updated April 3, 2014 4:22 p.m. ET

Globalfoundries Inc. has emerged as the leading candidate to buy International Business Machines Corp.'s semiconductor-making operations, said people familiar with the matter. IBM also held talks with chip makers Intel Corp. and Taiwan Semiconductor Manufacturing Co., the people said, but TSMC has dropped out of the talks. While Intel is still involved, Globalfoundries appears to have a stronger interest, they said.

Talks between IBM and Globalfoundries are continuing and A deal isn't imminent. It involves thorny issues, the people said, including control of intellectual property and terms under which the facilities' ultimate buyer might continue to make chips for IBM computers.



WSJ is the Journal's home for tech news, analysis and product reviews.

- [Mozilla CEO Eich Steps Down over Support of Anti-Gay Marriage Ballot Proposal](#)
- [Tech Elite Roll With HBO's 'Silicon Valley' Punches](#)
- [Does Office Turn iPad Into a Workhorse?](#)
- [Reviewing Cortana: Microsoft's Sassy Rival to Siri](#)

Price is another sticking point, with IBM initially asking for more than \$2 billion and bidders coming in north of \$1 billion, the people said.

The price may fluctuate higher or lower, depending on the deal's structure, one of the people said. For instance, the price is contingent on how much intellectual property IBM includes, the person said.

The situation is fluid and another bidder could ultimately prevail, one of the people said.

A spokeswoman said TSMC has studied the IBM chip plant and doesn't plan to add a new plant now in an overseas market.

Representatives from IBM, Globalfoundries and Intel declined to comment.

A sale of the chip-making operations, if completed, would represent IBM's most significant strategic shift since the firm got out of the PC business in 2004.

IBM exited low-margin businesses like PCs when it couldn't find a competitive edge. Chip making, by contrast, involves fundamental research and development, a longtime foundation for IBM hardware that has also helped drive innovation in the broader semiconductor industry.

IBM factories make computer chips for the company's high-end server systems as well as for external customers. Shedding those capital-intensive operations could help boost IBM's profitability and dovetail with the company's recent moves to reduce its reliance on selling computer hardware.

IBM recently struck a deal to sell its low-end server business to Lenovo Group Ltd. IBM still makes mainframes and high-end servers based on internally designed chips, but sales of servers using Unix's operating system have tumbled in recent quarters.

IBM wants to maintain control over as much semiconductor research and development as possible, but Globalfoundries is also interested in acquiring more of that expertise and intellectual property, the people said. As part of the deal, Globalfoundries would also like to secure an agreement to be IBM's main chip supplier, but IBM worries the company wouldn't be a reliable supplier, the people said.

"IBM wants to control what quality comes out and have the option of getting out of the deal," said one of the people. "[Globalfoundries] thinks it's nice to have the manufacturing if we can also get the R&D and be your supplier."

TSMC dropped out of the talks because it only wanted the R&D operation and wasn't interested in adding more chip-making capacity, the people said.

Over the past decade, IBM has transferred much of its chip-making R&D and prototyping from its own facilities to the College of Nanoscale Science and Engineering at the State University of New York in Albany. IBM and other chip makers send engineers to the campus, which is hosting research in areas that include development of larger semiconductor wafers to boost manufacturing productivity.

Globalfoundries, which is based in Santa Clara, Calif., is backed by the government of Abu Dhabi. The company was founded in 2009 from the former manufacturing operations of Advanced Micro Devices Inc. In addition to operating former AMD factories in Germany,

Globalfoundries has built a large factory near Albany and runs factories in Asia that were once part of Chartered Semiconductor Manufacturing Ltd.

The company makes chips for AMD, which competes with Intel in selling chips for personal computers. On Tuesday, AMD said it expects to pay Globalfoundries about \$1.2 billion in 2014 for work that includes making some chips for game consoles that are now exclusively made by TSMC.

IBM's factories made chips used in the previous generation of videogame consoles from Sony Corp. and Microsoft Corp. But both companies shifted their latest machines to chips from AMD. IBM still makes chips used in Nintendo Co. 's Wii system.

Toni Sacconaghi, an analyst at Sanford C. Bernstein, said in a recent interview that IBM has less of an economic rationale to keep its own chip-manufacturing plants as the company focuses less on servers.

IBM is also making fewer chips for external customers, giving it more of a reason to jettison the unit, he said.

Last year, sales of IBM's chip-making unit declined about 7% to \$1.46 billion. Sales of the business that provides circuit design and manufacturing consulting services fell 38% to \$215 million.


—Don Clark and Lorraine Luk contributed to this article.

Spaulding, Jeb

From: Miller, Lawrence
Sent: Wednesday, April 16, 2014 9:59 AM
To: Miller, Elizabeth; Spaulding, Jeb; Allen, Susan
Subject: IBM Potential issues

From Monday.

<http://www.itjungle.com/tfh/tfh041414-story09.html>

Lawrence Miller, Secretary
VT Agency of Commerce and Community Development


Spaulding, Jeb

From: Frank Cioffi [REDACTED]
Sent: Wednesday, April 23, 2014 8:31 AM
To: Miller, Elizabeth; Spaulding, Jeb
Subject: info on IBM
Attachments: IBM Vermont Economic and Community Significance GBIC 4-23-14 fin.pdf

Hi Liz and Jeb,

Our GBIC team has been working on the attached document to illustrate the economic and community impact and importance of IBM to our region and our state.
Just finished the document this am.

The document has great information and touches upon lots of economic and community impact areas.

Thought that you and the Gov would find it helpful.
I sent it to Pat Moulton and Lisa Gosselin.

best,
frank

Frank Cioffi
President
GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401
Office: [REDACTED]
Cell: [REDACTED]
email: [REDACTED]
Website: www.gbicvt.org

Promoting Good Jobs in a Clean Environment



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GBIC

Good Jobs In A Clean Environment

IBM Vermont

Over the past six decades, the most significant contributor to the expansion, diversification, and enrichment of our state's economy has been IBM Vermont. No company has made a more prolific contribution towards enhancing the lives of generations of Vermont families and expanding our state's capacity to innovate and grow. IBM opened Vermont to the world and opened the world to Vermont.

IBM is Vermont's largest for-profit employer, providing quality jobs to approximately 4,000 Vermonters. We estimate that over 12,000 Vermont families are supported directly and indirectly by IBM. The company's \$150 to \$200 million annual payroll and economic activity annually injects approximately \$1 billion dollars into our state's economy making IBM Vermont's most significant and vital economic engine.

Whenever Vermont is recognized for its technological innovation, that distinction is likely to be attributable to IBM's generation of knowledge and skills among its Vermont workers. IBM Vermont is a world leader in supplying complex electronic components to a wide range of global companies. Vermont's high per capita state rankings for the creativity index, patent innovations, exports, and state rankings of workforce with higher education degrees are all substantially attributable to the contributions of IBM. Inventors at IBM are credited with 10 % of the company's total U.S. patents issued each year, and IBM has led the world in patents issued for more than a decade.

Since coming to Vermont, IBM and its employees have set an unparalleled standard of excellence by their significant contribution towards enhancing our communities. The relationship between IBM, its employees and the Vermont community is grounded in IBM's long-standing commitment to civic, social, and environmental responsibility.

Since its establishment in Vermont, IBM's impact on our state has been truly unrivaled. However, its touch in the world has been just as remarkable. Semiconductors made at IBM, Vermont are used by leading global electronics companies. Across the world in 2014, virtually anyone using a smart phone, hand held and mobile device is using a product run on semiconductors made at IBM Vermont.

Sixty years after they came to Vermont, the innovation and creativity of the company and its employees remain as rugged, strong, and vibrant as our Green Mountains.

Frank Cioffi, President

1

• P.O. Box 786 • 60 Main St., Burlington, VT 05402 •

Tel: [REDACTED] • Fax: [REDACTED] • [REDACTED] • www.gbicvt.org



GBIC

Good Jobs In A Clean Environment

IBM Vermont: Economic and Community Significance

Economics:

- Workforce:
 - o GBIC estimates that approximately 4,000 Vermonters are employed directly by IBM.
 - o GBIC estimates that IBM Vermont employees live in 190 towns across all 14 counties in Vermont.
 - o GBIC estimates that payroll for the IBM Vermont campus workforce is between \$150 – \$200 million annually
- GBIC estimates that the multiplier of jobs based upon IBM direct employment translates to 12,000 jobs; meaning that 12,000 Vermont families are supported directly and indirectly through the wages, salaries, operating and capital investments of IBM Vermont.
- Property Valuation/Taxes:
 - o Property valuation and accompanying property tax revenues for Essex and Williston remains significant:
 - Essex: Two assessed parcels with a combined real value of \$104,000,000
 - Taxes (combined municipal and state assessment):
 - \$ 2,219,587.60 (Essex Village)
 - \$ 6,668.90 (Essex Town)
 - **\$ 2,226,256.50 (Combined Village and Town total)**
 - Williston: One assessed parcel with a real value of \$ 31, 627,060
 - Taxes (combined municipal and state assessment): **\$ 557,015.76**

Utilities and Municipal Infrastructure:

- IBM has made very significant investments in infrastructure (roads, waste water treatment, electric infrastructure etc.) on its campus. Because of these investments, utility ratepayers have had lower rates and high quality energy and municipal and state taxpayers have had lower taxes.
 - o Without IBM's demand, Vermont would lack the demand to provide the current level of infrastructure investments without significantly burdening residential and other commercial consumers
- Green Mountain Power:
 - o The entire site use is approximated at 65 megawatts, translating to more electric usage than the City of Burlington. Removing this portion of the GMP portfolio would require increasing rates to cover transmission and distribution costs on capital assets.
 - o The estimated purchase value of the IBM electric power usage is approximately \$35,000,000 annually

Frank Cioffi, President

2

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- VT Gas:
 - o IBM has been a consistent and large VT Gas customer due to the high demand for baseload energy. IBM's gas bill is approximately \$4.5 million annually and their year round usage stabilizes the Vermont Gas distribution system.
- Champlain Water District:
 - o IBM has consistently been 34.2% of CWD's daily usage (3.18 MGD out of a total 9.3 MGD). Their consistent usage and non-seasonal demand allows for price stabilization across the entire CWD supply portfolio.
 - o Without IBM usage, wholesale rates would increase 40%, from \$1.84/1,000 gallons to more than \$2.50/1,000 gallons.
- On-site Wastewater Treatment Facilities:
 - o IBM Owned Treatment Facility Value:
 - GBIC estimates the combined capital value of the IBM owned waste water treatment facilities and infrastructure, as constructed, at \$200 million.
 - o Capacity:
 - Industrial waste treatment facility (4.4 million gallons per day).
 - Sanitary waste treatment facility (350,000 gallons per day).

Future Industrial Potential:

- During the ECOS report process it was revealed that Chittenden County lacks significant development opportunities for future industrial land sites. In 2013, GBIC retained the services of Champlain Consulting Engineers to determine potential future build-out of the IBM Vermont – Williston campus.
 - o Their conclusion was that more than 34 acres of developable land remained on the site, enough to house 387,500 sq. ft. of light industrial development potential.
 - o If development on IBM land could access the IBM waste water treatment facilities then there would potentially be very significant more square feet of new space, either of industrial, commercial or residential depending upon local zoning.
- In addition there is a 60 acre parcel of IBM land in Essex Jct that could potentially house 350,000 square feet of industrial space.
- The potential of industrial space on the IBM Essex and Williston campus conserves the need for Chittenden County to develop other greenfields, and has the added benefit of being located next to pre-existing infrastructure with current industrial use.

Frank Cioffi, President

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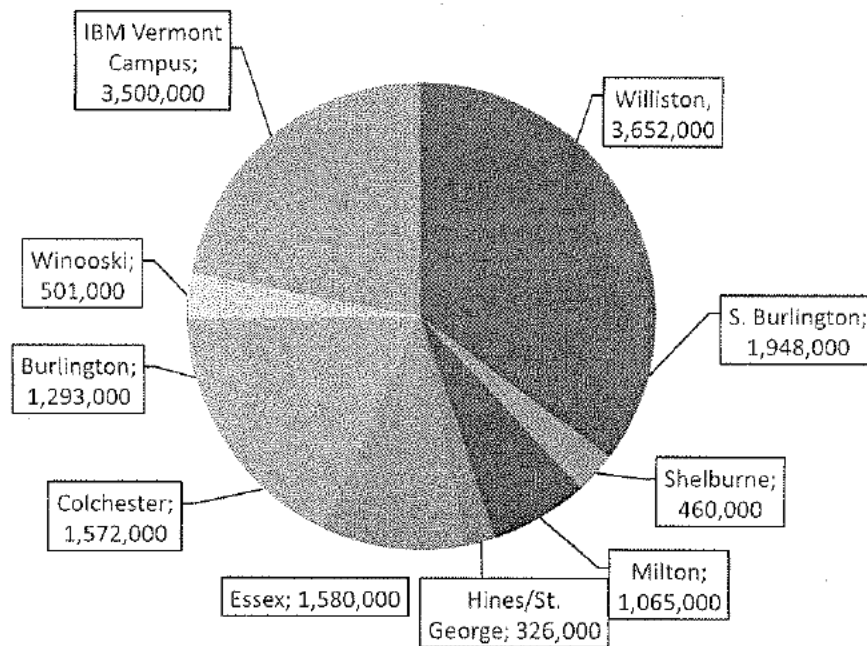
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Chittenden County Industrial Inventory Square Footage



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**GBIC***Good jobs In A Clean Environment***Educational Attainment – Chittenden County:**

- Chittenden County has a significantly higher percentage of the population with completed post-secondary education than the rest of the state, a distinct advantage in technology and innovation based industries. IBM continues to maintain a significant demand of highly skilled and highly educated Vermont workers, adding to our regional advantage in educational attainment.

	CC	VT	CC/VT
Population 25 years and over	96,049	421,096	22.8%
Less than 9th grade	2.40%	3.50%	68.6%
9th to 12th grade, no diploma	4.30%	6.30%	68.3%
High school graduate (Includes GED)	22.70%	32.30%	70.3%
Some college, no degree	16.30%	16.50%	98.8%
Associate's degree	10.10%	8.40%	120.2%
Bachelor's degree	27.70%	20.10%	137.8%
Graduate or professional degree	16.40%	12.80%	128.1%

Innovation and Patents:

- In patents per capita (2012), Vermont ranks #4.
 - o IBM accounts for 70% of these patents. If removed from the equation, Vermont would rank #28.
 - o The Brookings Institution lauded the Burlington-South Burlington MSA as the second most innovative metro area in the United States due in large part to our per capita patent figures.
 - o In the past 10 years, IBM of Vermont employees have generated more than 1,200 patents, far and away the most of any organization in the state.
 - o IBM technology developed in Vermont is globally innovative and present in products like hand held and mobile devices used virtually everywhere in the world today.
- Innovation is the driver of job creation and retention in an industry with two year product cycles.
 - o Every IBM Technology Development job sustains 16 IBM Vermont jobs.
 - Jobs like: Manufacturing engineers, Technicians, Production Operators, Quality Control, Site Operations, Supply Chain are all sustained because of investments by IBM investments in Research and Development.

Frank Cioffi, President

5

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- These positions are strictly those counted within IBM Vermont; further benefits to the state and our communities occur because of their choosing to make personal investments from living in Vermont.
- Former IBM employees have gone on to create their own success stories in Vermont:
 - IDX, Asic North, and ipCapital were all founded with former IBM employees.

Exports:

- IBM Vermont accounts for nearly 70% of all VT international exports, totaling more than \$2.8 billion in 2012.
 - Many of these exports are incorporated into higher level subassemblies in Asia, where they must be able to compete on price as well as performance.

Technical Expertise:

- IBM has utilized its expertise in water and wastewater management to support other Vermont employers to make technical and business decisions, free of charge.
 - Additionally, IBM has shared their phosphorous reduction chemistry and techniques with wastewater treatment plants across the State at no cost to the plants.
- IBM has provided significant resources at no charge for Vermont's Solar Research Test Center.
 - This includes providing land for the project free of charge.
 - Also free of charge, IBM has provided the technical work for the project:
 - Power engineering
 - Permit expertise
 - Construction management
 - Site design
 - Government contracting
- IBM has provided technical expertise, free of charge, to other Vermont businesses and organizations such as Vermont Technical College, Howard Center, St. Michael's college, the Vermont Air Guard, Cabot Cheese, Sugarbush, Mount Snow, Central Vermont Medical Center, and Rock of Ages.
 - These IBM employees help with energy management support, technical issues, and Smart Grid data analytics to help these Vermont employers run more effective and efficient operations

Frank Cioffi, President

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Charitable Contributions in the Community:

- IBM has extensive community impact through the Employee Charitable Contribution Campaign in 2013. Included :
 - o Greater than \$780,000 pledged
 - o 4 Tons of Food delivered to 13 different food shelf locations across the state
 - o Greater than \$2M in total contribution (includes pledges, volunteer hrs, grants.)
- IBM Continues to support Engineer's Week:
 - o >140 volunteers
 - o >4000 students reached
 - o >40 schools across 6 Vermont Counties
- Excite Camp
 - o 14th Consecutive Year
 - o >40 volunteers
 - o 30 Seventh grade girls in attendance
- IBM Grants in 2013
 - o 39 non-profits/schools
 - o 19 different communities
 - o 85 IBM Volunteers

Frank Cioffi, President

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Spaulding, Jeb

From: Gosselin, Lisa
Sent: Wednesday, April 23, 2014 9:01 AM
To: Frank Cioffi; Pat Moulton Powden
Cc: Leriche, Lucy; Spaulding, Jeb; Miller, Elizabeth
Subject: RE: IBM info

Frank,

Thank you so much for this. There is terrific information in this document and we really appreciate your efforts here. This will be valuable on many, many fronts, in particular in gaining public support for the VEF.

Pat and Lucy, I know the fifth floor has been leading the charge here but I am wondering if we should not have a call to discuss what the most likely three scenarios might be and what our actions would be in each case so that we have a plan in place. We met with the town of Essex last week and they are both nervous and eager to do what they can to help.

Thank you again Frank for the work here.

Lisa

From: Frank Cioffi [REDACTED]
Sent: Wednesday, April 23, 2014 8:28 AM
To: Gosselin, Lisa; Pat Moulton Powden
Subject: IBM info

Hi Lisa and Pat,

Our GBIC team has been working on the attached document to illustrate the economic and community impact and importance of IBM to our region and our state.
Just finished the document this am.

The document has great information and touches upon lots of economic and community impact areas.

Thought that you would find it helpful.
I will send this to Liz and Jeb as well.
best,
frank

Frank Cioffi
President
GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401
Office: [REDACTED]
Cell: [REDACTED]
email: [REDACTED]
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Spaulding, Jeb

From: Frank Cioffi [REDACTED]
Sent: Wednesday, April 30, 2014 3:15 PM
To: Miller, Elizabeth; Spaulding, Jeb; Gosselin, Lisa; Leriche, Lucy; Pat Moulton Powden; Allen, Susan
Cc: Torti, Tom; Catherine Z. Davis; Katie Taylor
Subject: St Albans Messenger story on IBM
Attachments: St A Messenger story on IBM economic 4-29-14.pdf

Attached, in PDF format, is the story that the St. Albans Messenger did on IBM.
It appeared in the Tuesday 4-29-14 paper.
It will also appear in the weekly papers that they own in Chittenden County this week and next week.
Best regards,
Frank

Frank Cioffi
President
GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401
Office: [REDACTED]
Cell: [REDACTED]
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St. Albans

Tuesday, April 29, 2014

VERMONT MESSENGER

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Vermont's Oldest Evening Newspaper

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Established in 1861

ECONOMY

IBM: What's at stake?

State's largest plant
casts wide, deep net

By MICHELLE MONROE
Messenger Staff Writer

ESSEX JUNCTION — IBM, the largest single private employer in Vermont, is putting its semi-conductor business up for sale, according to reports in the financial press. Frank Cioffi, president of the Greater Burlington Industrial Corporation (GBIC), however, is hopeful that if the Essex facility is sold, it will remain open under new ownership.

The potential impact on the regional economy should IBM close would be enormous.

IBM employs roughly 4,000 people in Essex with an estimated payroll of \$150 million to \$200 million. Those employees reside in 190 towns, particularly in Chittenden, Franklin, Grand Isle and Lamoille counties.

GBIC estimates the company supports another 8,000 jobs indirectly and adds \$1 billion annually to Vermont's economy.

IBM and its employees purchase goods and services here in Vermont. "They eat in our restaurants. They go to our movies. They buy cars here. They buy houses," said realtor Ernie Pomerleau, a member of the GBIC board.

IBM itself pays more than \$2.5 million in property taxes alone. The amount it pays in corporate taxes is not public information. The company's employees are also paying income, property, meals, gas and sales taxes.

Examining the economic impact of IBM, "has shown us the economic value

► See IBM on page 5A

of holding on to what you have," said Cioffi.

IBM is a major user of electricity, gas, water and wastewater treatment. The Essex facility uses as much power in a year as the City of Burlington, said Cioffi. The company takes raw power directly from producers such as Hydro Quebec and upgrades it for industrial use. "They own a lot of electric infrastructure other companies would never own," said Cioffi.

The presence of a large services' user such as IBM can help reduce rates for other users. For example, IBM also uses 34 percent of the water filtered by the Chittenden Water District. "That's helped keep rates down and quality up for other users," said Cioffi. Without IBM's usage rates would increase 40 percent, by GBIC's estimates.

IBM has its own wastewater treatment facility, which GBIC estimates is worth \$200 million. The facility can treat 4.4 million gallons of industrial wastewater daily.

The Essex facility is known for its energy efficiency and IBM has used it as a model for reducing energy use in other locations. The company has even assisted other local organizations such as Vermont Technical College and the Howard Center in making energy efficiency

improvements. The Howard Center saved \$400,000 annually as a result, according to Cioffi.

IBM has loaned the technical expertise of its staff to numerous local organizations including the Solar Research Test Center, hospitals, colleges, the Vermont Air Guard and Cabot Cheese.

EXPORTING GOODS, IMPORTING \$\$

IBM, explained Cioffi, is the kind of company that provides the economic base for a region, not simply because of its size, but because of the type of work it does.

IBM brings money into Vermont and exports goods. The money IBM brings into the region, in turn, supports other businesses.

Seventy percent of Vermont's international exports are from IBM, more than \$2.8 billion in 2012.

The Essex facility makes microchips used in cell phones, tablets and other electronic devices. IBM has a second microchip facility in Fishkill, N.Y., and a research facility at the State University of New York Albany. Any sale of the Vermont facility would likely include those facilities as well.

Research and development staff at the Essex

facility have helped make Vermont fourth in the number of patents per capita.

Each research and development position creates 13 additional jobs at the facility as the improvements they make are turned into new products, explained Cioffi.

Although the equipment in IBM Essex is a couple of generations old that only limits the number of chips that can be produced at one time, not the design sophistication of the chips themselves, according to Cioffi.

That combined with the value of the Essex employees themselves, the facility's energy efficiency and other assets, has Cioffi hopeful that any potential buyer would keep the facility open.

Nevertheless, he is pleased Gov. Peter Shumlin is seeking to create a \$4.5 million Enterprise Incentive Fund that could be used to provide incentives to companies to open facilities in Vermont, expand existing facilities or simply remain in the state.

THE FUTURE

New York State attracted a \$4.2 billion chip fabrication facility to Saratoga County with \$1.8 billion in incentives, said Cioffi. That facility is owned by GlobalFoundries, one of the companies considering

a purchase of IBM's semiconductor business.

New York offered GlobalFoundries a whole range of incentives from property tax abatement and tax credits to training programs to partnerships with higher education facilities. "We cannot match dollar for dollar with the State of New York," said Cioffi.

But the proposed Enterprise Incentive Fund would be another tool for the governor to use when trying to attract or keep businesses in the state, Cioffi said.

Vermont currently has the Vermont Employment Growth Incentive (VEGI) program, which is aimed at new or expanding employers. The incentives are based on the company expanding its payroll.

The state also needs programs aimed at retaining existing employers, especially in manufacturing where employment is generally not expanding, suggested Cioffi.

He would also like to see the state create incentives for research and development, precisely because those positions create other jobs.

Incentives for businesses should be understood as investments, in Pomerleau's view. "Some people in the legislature might call it corporate welfare," he said. "I call it an investment."

Spaulding, Jeb

From: Frank Cioffi [REDACTED]
Sent: Wednesday, May 21, 2014 2:35 PM
To: Miller, Elizabeth; Allen, Susan; Spaulding, Jeb; Gosselin, Lisa; Pat Moulton Powden; Leriche, Lucy
Subject: Heads up

Hi Liz, Jeb, Sue, Pat, Lucy and Lisa,

Wanted to give you a heads up:

The media has our GBIC research about IBM and the economic impact papers.

St. Albans Messenger and its affiliates ran stories a couple weeks ago as did Addison Independent.

Today WCAX is interviewing me.

The Free Press has asked to talk w/ me as well and I will be on Mark Johnson next Tuesday and Bill Sayre on Weds.

I will talk about the Gov's VEF.

Best regards,

Frank

Frank Cioffi

President

GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.

60 Main Street Burlington, Vermont, USA 05401

Office: [REDACTED]

Cell: [REDACTED]

email: [REDACTED]

Website: www.gbicvt.org

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Spaulding, Jeb

From: Allen, Susan
Sent: Friday, May 30, 2014 5:00 PM
To: Allen, Susan
Subject: FW: Gov. Shumlin announce agreement on proposed rate decrease

For Immediate Release
May 30, 2014

Gov. Shumlin announces agreement on proposed rate decrease *MOU includes Department of Public Service, GMP, IBM and AIV*

MONTPELIER – Gov. Peter Shumlin today announced that the Department of Public Service has reached agreement with key parties in the form of a Memorandum of Understanding (MOU) with Green Mountain Power (GMP), IBM and the Associated Industries of Vermont (AIV) on a total rate decrease of nearly 2.46 percent for GMP customers over the next year beginning in October, 2014.

The Public Service Department and key stakeholders agreed to a 1.46 percent rate decrease, with an additional almost 1 percent decrease that resulted from a revenue sharing agreement credit from operations at Vermont Yankee in 2013. The remaining revenue sharing agreement funds will be delivered entirely to customers over the next three years through a credit on their bills.

A key component of the agreement also freezes IBM's rates at this level for the next three years.

"At a time when other states in our region are seeing double digit increases in power costs, Vermonters are going to see rates go down this year," Gov. Shumlin said. "This rate decrease is great news for Vermont. The agreement provides stability and predictability for one of our most valued employers, and helps ensure that Vermont maintains a thriving center of innovation and technology well into the future. This is further evidence that the merger of Green Mountain Power and Central Vermont Public Service is already delivering cost savings and putting money in Vermonter's pockets."

Public Service Commissioner Christopher Recchia agreed, adding, "This is very significant, not only because we are reducing rates to consumers, but because we are doing so in an environment in which most other northeastern states are raising electric rates. This agreement represents real value to Vermont customers. We are pleased to present this Memorandum of Understanding to the Public Service Board."

The agreement requires approval of the Public Service Board, which is expected to consider the proposed resolution over the next few months. Any rate changes approved will take effect Oct. 1, 2014.

Contact:
Susan Allen, [REDACTED]

Spaulding, Jeb

From: Jeff Carr [REDACTED]
Sent: Tuesday, June 03, 2014 9:13 AM
To: Spaulding, Jeb; Reardon, Jim
Cc: Clark, Sarah; Matthew Cooper; Phillip Sprehe; Peterson, Mary
Subject: Bloomberg BusinessWeek Article on IBM
Attachments: S45C-514060308300.pdf

Hi Jeb-Jim:

In case you did not see this...

There are many interesting tidbits in this article. One which caught my eye, is the one where IBM is using "lowering taxes" as one of the ways to get to their \$20 per share earnings goal. IBM calls this their Roadmap to 2015—according to the article.

The other concerning tidbit is the one where the article states: "....Hardware sales have plummeted 24 percent in two years turning a manageable decline into a full-on implosion..." (See page 62) of the article.

Jeff

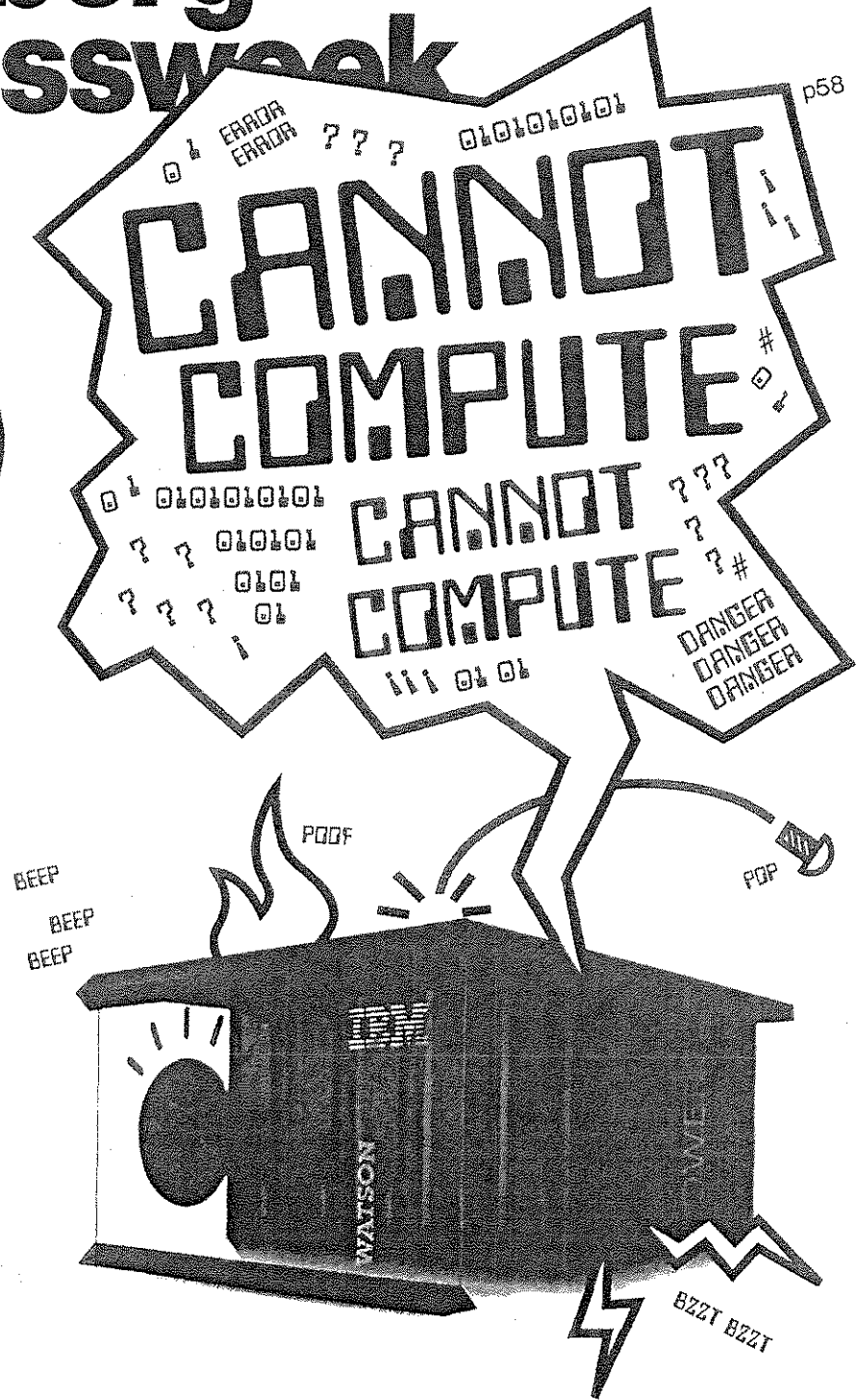
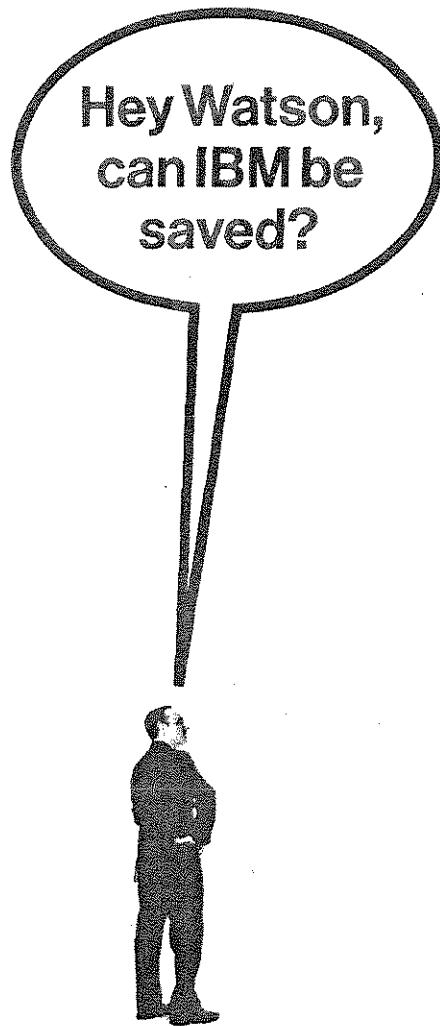
Jeffrey B. Carr

Economic & Policy Resources, Inc.
P.O. Box 1660
Williston, Vermont 05495-1660
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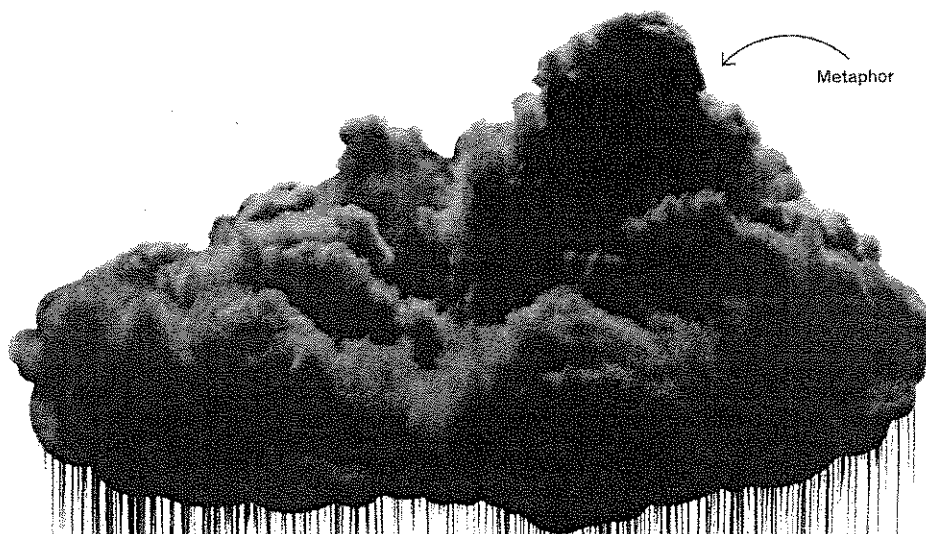
May 26 — June 1, 2014 | businessweek.com



p58

It's Not Us, It's You

**Why customers
are breaking up
with IBM
By Nick Summers**



Metaphor



IBM CEO Ginni
Rometty

In the summer of 2012, five American technology companies bid on a project for a demanding new client: the CIA. The spy agency was collecting so much information, its computers couldn't keep up. To deal with the onslaught of data, the CIA wanted to build its own private cloud computing system—an internal version of the vast fleets of efficient, adaptable servers that run technically complex commercial services such as Netflix. For the agency, the power of the cloud was tantalizing. "It is nearly within our grasp to compute on all human-generated information," the CIA's chief technology officer, Ira "Gus" Hunt, told a gathering of industry leaders earlier that year, calling it "high noon in the Information Age." For the bidders, more was at stake than a piece of the lucrative federal IT market. Whoever won the 10-year, \$600 million contract could boast that its technology met the highest standards, with the tightest security, at the most competitive prices, at a time when customers of all kinds were beginning to spend more on data and analytics.

IBM was one of two finalists. The company would have been a logical, even obvious, choice. Big Blue had a decades-long history of contracting with the federal government, and many of the breakthroughs in distributed computing can be traced back to its labs. The cloud was a priority and a point of pride. In 2012, IBM's new chief executive officer, Virginia Rometty, used her first speech to shareholders to describe big data as a "vast new natural resource" that would fuel the company's growth for a decade.

On Feb. 14, 2013, the CIA awarded the contract to Amazon.com. The e-commerce company, a pioneer in offering cloud computing services to corporate customers from Nokia to Pfizer, had persuaded the spymasters that its public cloud could be replicated within the CIA's walls. Amazon had been bleeding IBM for years—its rent-a-server-with-your-credit-card model was a direct threat to IBM's IT outsourcing business—but this was different. Amazon beat IBM for a plum contract on something like its home turf, and it hadn't done so simply by undercutting IBM on price. IBM learned that its bid was more than a third cheaper than Amazon's and officially protested the CIA decision.

It would have been better to walk away. As the Government Accountability Office reviewed the award, documents showed the CIA's opinion of IBM was tepid at best. The agency had "grave" concerns about the ability of IBM technology to scale up and down in response to usage spikes, and it rated the company's technical demo as "marginal." Overall, the CIA concluded, IBM was a high-risk choice. In a court filing, Amazon blasted the elder company as a "late entrant to the cloud computing market" with an "uncompetitive, materially deficient proposal." A federal judge agreed, ruling in October that with the "overall inferiority of its proposal," IBM "lacked any chance of winning" the contract. The corporate cliché of the 1970s and '80s, that no one ever got fired for buying IBM, had never seemed less true. IBM withdrew its challenge.

No single deal encapsulates a 103-year-old company with a market capitalization of \$185 billion. But the CIA butt kicking is a microcosm of larger problems IBM is having as it struggles to adapt to the cloud era, in which clients large and small rent technology cheaply over the Internet instead of buying costly fixed arrays. Under Rometty's leadership, revenue has declined for eight consecutive quarters, a period when most of corporate America has flourished. In January, after a year in which IBM was the only company in the Dow Jones Industrial average whose shares lost value, Rometty and her top executives turned down their annual bonuses, worth in her case as much as \$8 million. (Rometty, 56, who goes by Ginny, declined to be interviewed for this article.)

IBM has three core businesses: services, software, and hardware. When times are good, they work in concert. When,

for example, it recommends that a customer of its consulting business enter a foreign market, it supplies the servers and the applications that run on them and charges for the system's upkeep. In the same way, a decline in one of these businesses can hobble the whole company, a destructive spiral IBM is fighting to break. As more customers get their computing done cheaply in the cloud, IBM is selling less hardware, which imperils its high-margin software products. And any perception that IBM is adrift threatens its ability to advise clients on anything at all.

Much of what is wrong stems from something IBM is doing "right": steadily increasing its adjusted earnings per share, a measurement Wall Street adores. In 2010, Rometty's predecessor, Sam Palmisano, pledged that per-share earnings would reach \$20 in five years, a plan called Roadmap 2015. In interviews, and even in public Internet posts, employees refer to the plan bitterly as Roadkill 2015. To make earnings rise while revenue is falling, Rometty has cut costs, sold business lines, fired workers, figured out ways to lower IBM's tax rate, bought back shares, and taken on debt. Of the 25 analysts tracked by Bloomberg, nine predict that IBM will indeed hit the \$20 target. The question is what type of company Rometty will have left when she gets there.

A technology company doesn't survive for a century without an ability to reinvent itself—sometimes with foresight, sometimes on the brink. Founded in 1911 as the Computing-Tabulating-Recording Co., the outfit that would become IBM sold accounting machines and punch-card systems and survived the Great Depression by servicing the growing federal government. IBM was bold, willing to take huge bets on the future. It became a behemoth by creating and dominating the mainframe computing market in the 1960s, and then, in 1981, it ignited the desktop revolution with the introduction of the IBM PC.

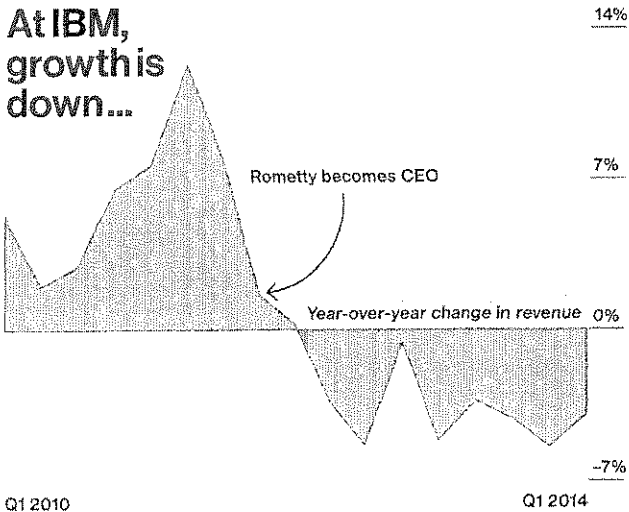
By 1990 the Armonk (N.Y.) company had almost 400,000 employees—and acted like it, reacting lethargically as nimbler competitors commodified the industry. Near bankruptcy and losing \$8 billion a year, it brought in its first outside CEO, Louis Gerstner Jr., a former American Express and RJR Nabisco executive, to orchestrate a turnaround. Rejecting calls to dismantle the IBM empire, Gerstner shed declining products, slashed tens of thousands of jobs, and built a consulting unit within IBM. Gerstner titled his memoir of the time *Who Says Elephants Can't Dance?*

On retiring in 2002, Gerstner handed the top job to Palmisano, an IBM lifer who dramatically expanded the bet on software and services and against personal computers. (Palmisano is currently an adviser to Bloomberg LP, which owns *Bloomberg Businessweek*.) With margins on desktops and laptops melting away, Palmisano sold the PC business to China's Lenovo, shortly after buying the consulting division of PricewaterhouseCoopers for \$3.5 billion. The job of integrating the acquisition into IBM's bureaucracy fell to an up-and-coming executive: Rometty, a Chicago native who'd joined IBM in 1981, two years out of Northwestern University. She was credited with making the operation thrive, as corporate

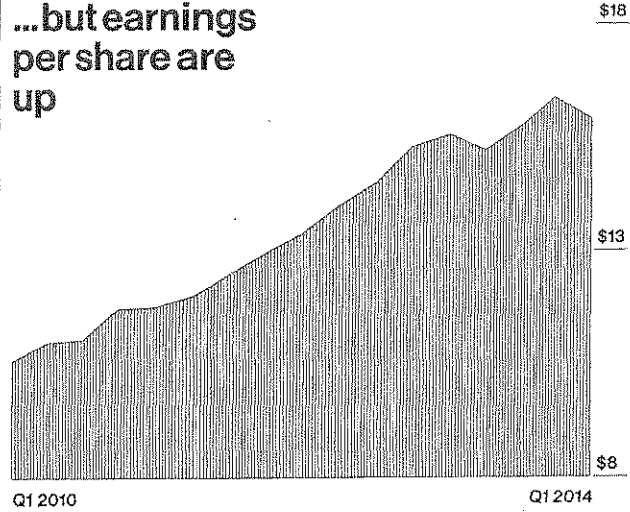
"It is the poster child for financial engineering, in my world"

Roadmap vs. "Roadkill"

At IBM, growth is down...

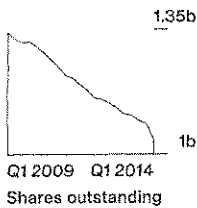


...but earnings per share are up



How does that work?

Buybacks

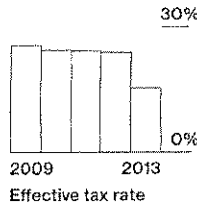


Asset sales

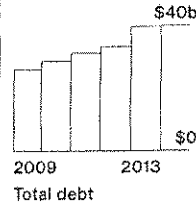
\$2.3b

IBM sold its low-end server business to Lenovo in January

Lower taxes



Debt



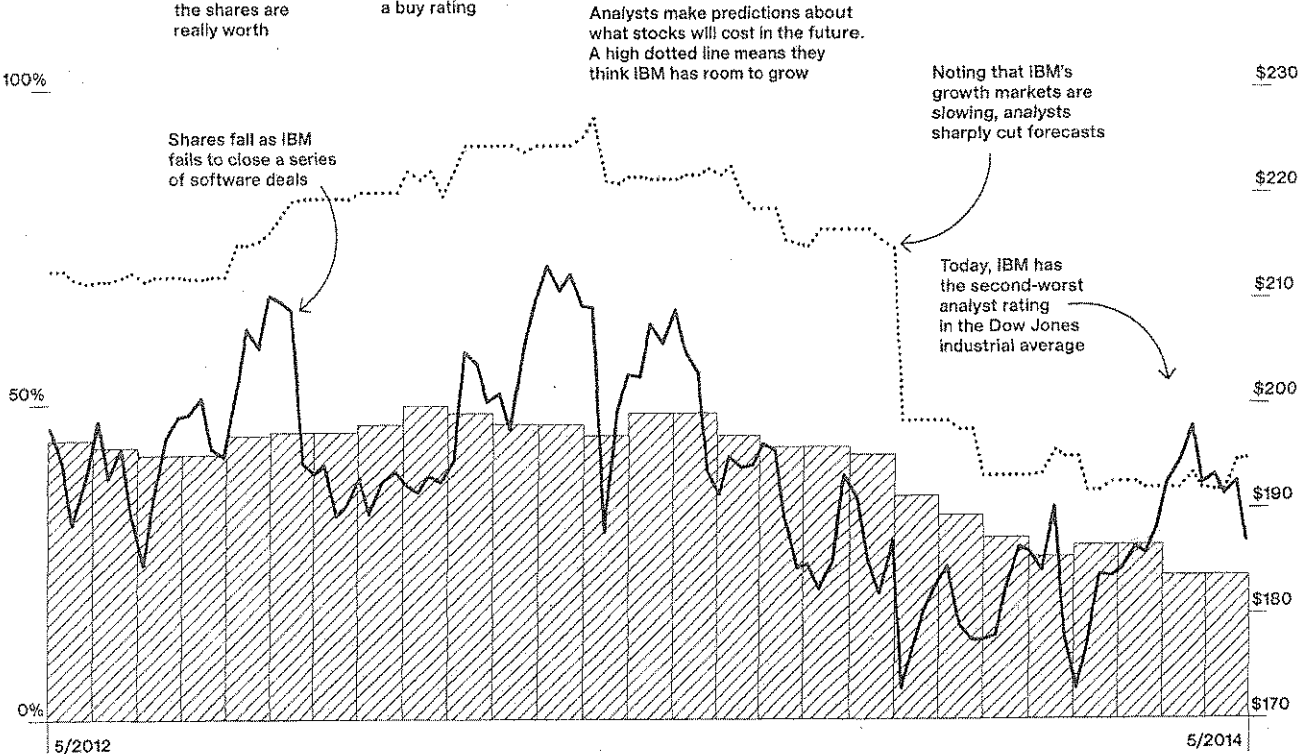
Nonstandard accounting

125

Number of times "non-GAAP" appears in 2013 annual statement. (It was cited zero times in 2009)

Wall Street is losing patience

Share price What analysts say the shares are really worth % of analysts with a buy rating



customers overwhelmed with the Internet were only too happy to sign fat, recurring contracts with IBM to take IT problems off their hands. Over the next decade software and services would grow to a full 80 percent of revenue. The hardware division (whose chief, Robert Moffat, pleaded guilty to insider-trading charges in 2010) was understood to form a smaller but still essential arc in the IBM circle of businesses.

That was the IBM Rometty inherited in October 2011, when Palmisano named her the company's first female CEO. It seemed like a golden moment. IBM was celebrating its centennial with record sales, record profits, and a record share price. An artificial-intelligence project called Watson hit the publicity jackpot by beating human champions on *Jeopardy!* And in November, IBM received the ultimate financial benediction: Warren Buffett revealed he had broken his rule of not investing in technology stocks with the purchase of a 5.5 percent stake in IBM for more than \$10 billion. Buffett liked how entrenched the company had become in the world's IT departments; he said Big Blue was like an auditor or a law firm—really difficult to break up with. He especially liked the road map Palmisano had pledged before stepping down. "They have this terrific reverence for the shareholder, which I think is very, very important," Buffett said on CNBC.

The honeymoon proved short-lived. Rometty is by many accounts a smart, vigorous CEO—who turned out to have inherited a far more dire position than she, or much of Wall Street, may have realized. The megatrend is corporate America's move to the cloud. It's not just Amazon that IBM needs to worry about: In an August 2013 study of 15 cloud infrastructure providers, research firm Gartner rated IBM worst, behind Microsoft, Rackspace, and Verizon.

Hardware sales have plummeted 24 percent in two years, turning a manageable decline into a full-on implosion. As a rule, new companies are not buying their own servers and mainframes, and larger corporations, instead of ordering new machines when they reach an upgrade point, are moving their workloads to the cloud, too. Rometty, keeping with Gerstner and Palmisano's practice of selling businesses with shrinking profit margins, agreed in January to sell IBM's low-end server business to Lenovo for \$2.3 billion. (The deal awaits U.S. government approval.) IBM will attempt to resurrect its hardware sales with a new line of high-end servers unveiled in April called Power8, which it says can churn through massive data sets at record rates.

To capture and make sense of big data, corporate customers are asking for new kinds of software, another change to which IBM is racing to adjust. The software unit's revenue growth is slowing, from 8.7 percent in 2011 to 2.9 percent last year. Rometty has made more than a dozen acquisitions to boost IBM's offerings, including

Aspera, which helps clients move large volumes of data quickly; Cloudant, a service for mobile and Web apps; and TeaLeaf, a tool for retail marketers. The acquisitions come despite a \$6 billion annual budget for research and development.

Rometty's most significant investment has been SoftLayer Technologies, a smaller rival to Amazon in selling cloud computing to companies. IBM paid \$2 billion for SoftLayer last summer, in the middle of its bruising CIA fight with Amazon, and afterward began to wind down its own corporate cloud product. SoftLayer had attracted startups such as Tumblr and WhatsApp, which grew to require humongous power—and which never would have considered hiring IBM. A respectable player in the cloud business, SoftLayer had multiple suitors. Lance Crosby, SoftLayer's CEO, picked Rometty. "She was the only one who truly grasped what the cloud was and the impact it was going to have on enterprise and governments worldwide," Crosby says. "Ginni's whole take on it is the entire IT industry is going to be transformed in the cloud, and this is going to be the future of all IT for the next couple decades."

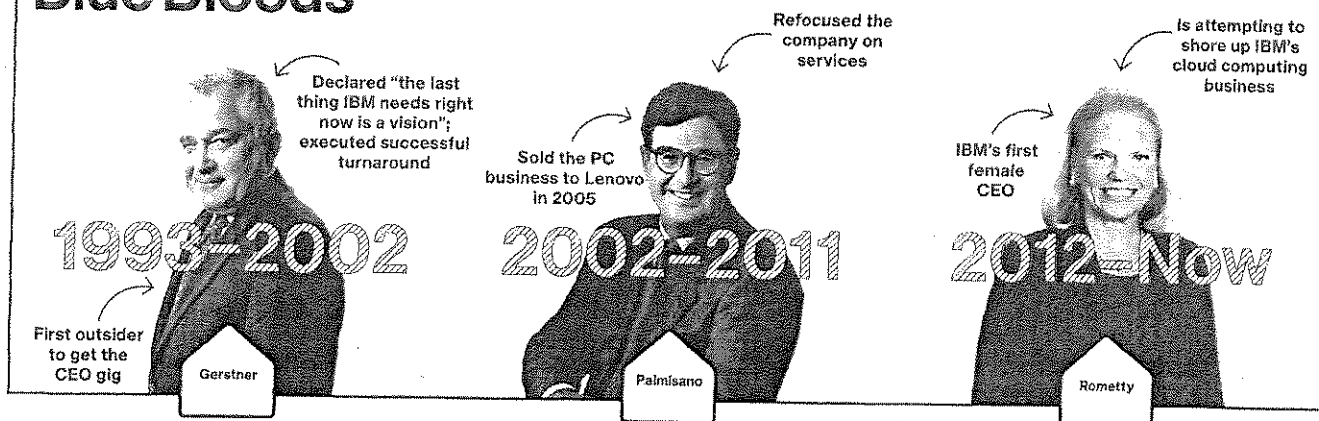
"IBM has had a history of successfully dealing with industry changes and making the right investment for the long-term," Palmisano said in an e-mail. "I'm glad to see that continuing under Ginni."

Rometty gets that this is an urgent moment for IBM. "Cloud is going to change the way IT operates," she told an audience of a few dozen employees last fall at an internal "Think Academy" lecture that was recorded for IBM's 431,000 employees. "And our strategic imperative is absolutely that we will remake enterprise IT for the era of cloud." Rometty has sought out other CEOs, including JPMorgan Chase's Jamie Dimon, to ask their advice on reinvigorating a company's culture at a time of disruption. Last year she began distributing black plastic cards bearing the phrase "One Purpose: Be essential" to IBM's roughly 50,000 managers and has been known to demand to see them as she walks the halls. At IBM, even clarity is complicated—on the back of the cards are three values and nine instructions for making customers happy, including "Unite to get it done now" and "Treasure wild ducks."

In February, during an onstage interview at a mobile technology conference in Barcelona, Rometty was asked whether business leaders understood just how rapidly their industries are being disrupted. "If you try to compare today to the past," Rometty said, "the speed of change is much faster. And you should not be dissuaded by that, meaning, that is all the more reason to push forward with things."

The cold-sweat scenario for IBM is that it does catch up to Amazon and other cloud providers—only to find that competition has driven margins toward zero. In March a price war broke out among Amazon, Google, and Microsoft, as each announced

Blue Bloods



“Warren Buffett, who professes...not to buy technology stocks, has picked the one that’s got the single funkier financial statements”

cuts of as much as 35 percent on computing; 65 percent on storage; and 85 percent on other services. Rometty has made two promises to investors: to lead corporate IT into the cloud and to deliver lustrously thick margins. Those goals may be irreconcilable, as long as IBM faces competitors willing to make the cloud a place of ever-diminishing returns. In a March 25 blog post that surely sent shivers through Armonk, Google declared that cloud pricing should follow Moore’s law, falling as the cost of hardware inevitably declines.

On April 16, as IBM reported its first-quarter earnings, Bill Fleckenstein was waiting. A Seattle hedge fund manager famous among investors for predicting bubbles, Fleckenstein had been shorting IBM off and on for years. This quarter he’d planned to be on the sidelines. IBM’s brand-new chief financial officer, Martin Schroeter, had told Wall Street to expect “very weak” performance, and Fleckenstein figured the company would easily meet the softened consensus.

As the results flashed onto his screen, Fleckenstein saw they were worse than he had imagined. IBM had barely made its numbers, and in forecasting the rest of the year, said it expected to set aside less in taxes while producing the same profit. That meant, logically, that pretax income would otherwise decline. “I thought, ‘There’s no way this thing can rally—too many people are starting to understand that something’s not quite right here,’” he says. He shorted the stock again that night.

It would be hard enough for Rometty to bring IBM into the cloud era. Doing so while yoked to her predecessor’s \$20-per-share earnings promise is almost impossible, says Fleckenstein. Short interest in IBM has increased from 15 million shares at the start of Rometty’s tenure to 30 million at the end of April.

“You ask anyone who follows balance sheets—tell me this is not a scary prospect,” says Fred Hickey, another IBM short seller, who edits a cult Wall Street newsletter called *High-Tech Strategist*. “I look at Accenture, I see tangible assets growing. Oracle, Microsoft, others. I don’t see anything like this anywhere. OK? Anywhere. It is the poster child for financial engineering, in my world.”

That phrase, financial engineering, is a catchall used by critics for the variety of ways IBM has made earnings per share go up even as revenue goes down. The spectrum of maneuvers starts with common practices like dividend increases and share buybacks, and extends to more esoteric tactics like designating major costs as “extraordinary” and devising ways to pay lower tax rates. The most transparent companies present their performance according to generally accepted accounting principles, or GAAP.

IBM’s 2009 annual report didn’t use the phrase “non-GAAP” at all; the 2013 report used it 125 times.

IBM’s income statement creativity may get labeled as financial engineering, says Steven Mills, IBM’s senior vice president for software and systems, “but think about it the other way: You’d be criticized for not doing a good job of managing your tax rate or not doing a good job with disposition of your cash and managing how you most effectively use it to deliver shareholder value.”


Wall Street analysts have been warning, louder and louder, that IBM can’t keep cutting its way to profits forever. In May 2013, by Bloomberg’s count, half the analysts covering the stock rated it a buy. Today the rate is less than one in four. The rising chorus against IBM as an investment has created one of the more fascinating showdowns in finance, given that its largest shareholder is none other than the Oracle of Omaha. Since his initial purchase became public in 2011, Buffett has added to his stake and now owns 6.75 percent of the company. It’s the worst-performing of his “big four” investments, which include Wells Fargo, Coca-Cola, and American Express. Buffett’s chief of staff did not respond to an interview request.

“The most shocking thing to me is, Warren Buffett, who professes many, many times not to buy technology stocks, has picked the one that’s got the single funkier financial statements, and that’s his area of expertise,” says Fleckenstein. “I find that quite curious. He’s Warren Buffett, and I’m not, but I don’t see how you could look at this and feel anything other than uncomfortable.”

Like an upright coffin, a black metal server rack big enough to hold a man was parked in the middle of a Las Vegas convention hall. One of IBM’s new Power8 servers lay on a slab next to it. It was late April, and 9,000 customers and partners had come to the company’s annual Impact conference for keynote speeches and workshops on cloud services. As IBM pitched the future, it celebrated the past. Banners heralded the 50th anniversary of IBM’s System/360 mainframe.

On footpaths between the vendor booths, IBM had stuck a series of corporate koans to the carpet. “How do I know what I don’t know?” read one. “What can I accomplish with real-time analytics?” “Can I really predict the future with big data?” The idea was to stimulate customers to pay IBM for answers. But the questions were obviously ones the company could have asked itself, before its CEO guaranteed a doubling in earnings per share five years out and during a disruptive transition to its industry. IBM’s failure to foresee the changes in its own future makes it less plausible that it can accurately guide customers to theirs. “You have to time your steps into these markets,” says Michael Rhodin, senior vice president for IBM’s Watson Group, in a conference room off the convention floor. “I think we’ve entered mobile at the right time. I think we’ve entered cloud at a perfect time.”

In mid-May, Rometty addressed a group of analysts in New York at IBM’s annual investor briefing. The researchers peppered her with questions: Why were IBM’s growth markets, notably China, shrinking? Did existing businesses or acquisitions deserve more blame for IBM being \$20 billion below the revenue level it had predicted in 2010? Was Big Blue actually two companies—Good IBM and Bad IBM?

“Let me start with this idea that we are going to lead the IT industry through this change,” Rometty said. “I’m very clear with my words in that this industry is going to reorder. It will not look the same 10 years from now. And we will be the leader in this industry.” Cloud sales delivered as a service, she said, were growing rapidly, on pace for \$2.3 billion in 2014. IBM’s total revenue is \$100 billion. “Look, this is not the first time we’ve transformed,” Rometty said. “This will not be the last time.” The \$20-per-share target for 2015, she confirmed, is still the plan. No one asked her if there would be a Roadmap 2020. 

Spaulding, Jeb

From: Spaulding, Jeb
Sent: Wednesday, June 11, 2014 12:44 PM
To: Moulton, Pat; Bourgeois, Kiersten; Kenney, Fred
Subject: FW: IBM story from Bloomberg:

FYI...

From: Allen, Susan
Sent: Wednesday, June 11, 2014 12:30 PM
To: Spaulding, Jeb; Leriche, Lucy
Subject: FW: IBM story from Bloomberg:

IBM Said Near Deal With Globalfoundries for Chip-Making

International Business Machines Corp. (IBM) is nearing a deal with Globalfoundries Inc. for its chip-manufacturing business, according to people familiar with the matter, after searching for a buyer for the money-losing unit since last year.

Globalfoundries is primarily interested in acquiring IBM's engineers and intellectual property rather than manufacturing facilities, which have little value as they are more than a decade old, said people with knowledge of the matter who asked not to be named because the talks are private. Globalfoundries, which has its own plant in New York state and a technology joint development project with IBM, will act as a supplier for IBM's microprocessors, the people said. Terms of the deal weren't available.

The chip-manufacturing business itself loses money for IBM -- as much as \$1.5 billion a year, according to one of the people. IBM has been unloading less profitable businesses to help meet its 2015 earnings goals amid eight consecutive quarters of declining revenue.

A deal would let IBM divest a business that has been a successful developer of fundamental process technology, yet failed to deliver the level of sales and profit on the manufacturing end that partners such as Samsung Electronics Co. have achieved.

Earlier this year, IBM had turned its attention to finding a joint-venture partner for the business because such an arrangement would let IBM maintain control of the design and intellectual property of the chips, a person with knowledge of the matter said in February. The Armonk, New York-based company had been seeking a buyer for the division since at least last year, a person said at the time.

Lenovo Deal

Chief Executive Officer Ginni Rometty is also trying to offload IBM's low-end server unit, which Beijing-based Lenovo Group Ltd. agreed to buy for \$2.3 billion. The companies have sought more time for a U.S. national-security review of the deal, a person familiar with the matter said this month.

James Sciales, a spokesman for IBM, didn't respond to phone calls and e-mails requesting comment on the deal. Kevin Kimball, a spokesman for Globalfoundries, said the company doesn't comment on rumor or speculation.

IBM's semiconductors, which include the PowerPC lineup, have been used in personal computers, game machines and other equipment. Still, Intel Corp.'s dominance in the processor market has left IBM with less of a role in the chip industry. Manufacturing microelectronics accounts for less than 2 percent of IBM's \$100 billion in annual revenue.

Globalfoundries was created in a 2009 transaction in which an investment arm of the government of Abu Dhabi purchased the manufacturing facilities of Advanced Micro Devices Inc. Then, in 2010, the entity acquired Singapore's Chartered Semiconductor.

IBM fell 0.3 percent to \$183.67 at 10:19 a.m. in New York, giving it a market value of about \$186 billion.

To contact the reporters on this story: Alex Sherman in New York at asherman6@bloomberg.net; Ian King in San Francisco at ianking@bloomberg.net; Alex Barinka in New York at abarinka2@bloomberg.net

Spaulding, Jeb

From: Pearce, Beth
Sent: Wednesday, June 11, 2014 7:05 PM
To: Spaulding, Jeb
Cc: Wisloski, Stephen
Subject: East Fishkill Rating
Attachments: Moody's assigns negative outlook to East Fishkill Town NY's.pdf - Adobe Reader.pdf

Courtesy of PRAG:

Here is the full rating report. Lots of moving parts including operating deficits, depleted reserves, water & sewer fund issues as well as IBM.

MOODY'S

INVESTORS SERVICE

Rating Update: Moody's assigns negative outlook to East Fishkill Town, NY's GOLT

Global Credit Research - 09 Jun 2014

Town has \$23.6 million of rated GOLT debt

EAST FISHKILL (TOWN OF) NY
Cities (including Towns, Villages and Townships)
NY

Opinion

NEW YORK, June 09, 2014 --Moody's Investors Service has assigned a negative outlook to the rating on East Fishkill Town, NY's outstanding general obligation bonds, affecting approximately \$23.6 million of rated debt. Concurrently, we have affirmed the rating at Aa2. The bonds are secured by the town's general obligation pledge as limited by the Property Tax Cap Legislation (Chapter 97, Part A) of the Laws of the State of New York, 2011.

RATING RATIONALE

The affirmation at Aa2 reflects the town's strong underlying credit characteristics; specifically its large tax base, strong wealth levels, low direct debt burden and modest pension burden.

The assignment of the negative outlook captures our expectation that the town's financial position, which has narrowed after four straight operating deficits, could continue to weaken in the near term due to structural imbalance in the general fund and pressure from weak water and sewer funds.

STRENGTHS

Large, wealthy tax base

Modest debt and pension burden

CHALLENGES

Trend of financial declines leading to material reduction in the town's reserve position

Enterprise risk associated with weak water and sewer funds

IBM likely to leave the area in 2014 or 2015, leading to some economic uncertainty

Tax base has declined significantly since the start of the financial crisis

DETAILED CREDIT DISCUSSION

PREVIOUSLY STRONG FINANCIAL POSITION HAS FALLEN SIGNIFICANTLY

The town finished 4 of the last 5 years with operating deficits, diminishing its reserves to a level that compares unfavorably with the majority of its similarly-sized peers. Faced with significant budgetary pressure from both a revenue and expenditure standpoint, management adopted a financial strategy designed to minimize expenditure cuts and tax increases at the expense of its reserve position. The town instituted a series of small property tax increases, which were enough to counter falling assessed values and an approximately 58% reduction in mortgage tax revenues, but did not allow the town to offset rising costs. As a result, available operating fund balance (including the general and highway funds) fell 61.3%, to \$2.3 million (13.7% of revenues) in 2013 (unaudited) from \$5.9 million (33.3% of revenues) in 2009.

The town is projecting an additional \$420,000 operating deficit for 2014, which would bring available operating fund balance down to approximately \$1.8 million (11.2% of 2013 revenues), a level of reserves that is very low for the rating. Management projects that it will be able to start growing available fund balance back towards its targeted \$3

million in 2015, using a projected \$600,000-\$700,000 of one-time proceeds associated with an upcoming sale of town property. In addition, the town is in the process of expanding its water system, tapping into water-rich wetlands on recently-purchased property. Management reports that once this new enterprise is fully operational in 2015 or 2016, it will generate profits that will go towards restoring fund balance. Further declines beyond what is expected in 2014, or failure to improve fund balance levels in 2015, will negatively pressure the rating.

RECEIVABLE FROM WEAK WATER AND SEWER FUNDS ADDS TO FINANCIAL UNCERTAINTY

The town's fund balance includes a combined \$995,000 account receivable due from its water and sewer funds, which both had negative fund equity in 2013. These receivables have grown significantly over the last 4 years, as the general fund increased its support to two financially imbalanced water districts and fronted cash for an ongoing sewer expansion project. Management projects that the sewer fund portion of the receivable (\$406,000) will be repaid in 2014 as new users connect to the expanded system. In addition, the town significantly raised rates in the troubled water districts during the current year, which are expected to repay the general fund over the next 3 or 4 years. Both funds had additional operating deficits in 2013 and currently sit at a combined -\$201,000 fund equity. Failure to improve financially and repay the general fund on the expected timelines would likely lead us to reconsider the status of the general fund receivables, creating additional rating pressure.

LARGE, WEALTHY TAX BASE HAS DECLINED; POTENTIAL DEPARTURE OF LARGEST TAXPAYER

The town's tax base is large and wealthy, benefitting the rating despite recent declines. Located in Dutchess County (Aa2, stable outlook) approximately 70 miles north of New York City (Aa2, stable outlook), the town is primarily residential. Full value is large at \$3.6 billion, but has declined significantly (24.7%) over the last 5 years due to falling home prices, even as the population continued to grow (up 13.4% since 2000). Management reports that while new home sales remain somewhat depressed, foreclosure rates continue to be low and permitting for home additions has increased, indicating that the economy may be stabilizing. Wealth levels in the town are strong, with median family income at \$115,159 (175.2% of the US median) and full value per capita is a sizable \$122,833.

The potential departure of the town's largest taxpayer, IBM, adds a degree of uncertainty that has the potential to negatively pressure the rating. IBM anchors the high tech-oriented Hudson Valley Research Park, which is a key driver for the local economy. Management estimates that the company could sell its remaining microchip manufacturing plant located in the town at some point over the next 2 years. We expect that the attractiveness of the property, combined with management's efforts to streamline the permitting process and attract new businesses, mean that IBM would be able to sell the property for close to market value. Notably, 7.3% of operating revenues come from a PILOT payment from IBM.

MODEST DEBT BURDEN

The town's direct debt burden is a modest 0.7% of full value, reflecting both the limited nature of its obligations as well as the size of the tax base. The town's debt is likely to remain manageable as its only upcoming debt plans include approximately \$1.5 million of additional GOLT bonds for the continuation of the water system expansion in 2014.

The town participates in two defined benefit cost-sharing plans, one for local employees (NYSERS) and one for police and fire (NYSPPFRS). The town is paying its full actuarially required contribution (ARC) for the plans and does not plan to amortize its pension payments. Moody's 3-year average combined adjusted net pension liability (ANPL) for the town, under our methodology for adjusting reported pension data, was \$9.7 million in 2012, or a modest 0.6 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run system in proportion with its contributions to the plan. Notably, the town's actuarial accrued liability for its OPEB program is \$32.3 million, which is being covered on a pay-as-you-go basis.

WHAT COULD MAKE THE RATING GO UP (REMOVAL OF NEGATIVE OUTLOOK)

Trend of operating surpluses improving available fund balance to prior levels

Significant turnaround in the tax base trend, leading to large full value growth

WHAT COULD MAKE THE RATING GO DOWN

Additional deficits beyond expected 2014 results

Loss of IBM plant without a new buyer or sale of the plant at a significantly reduced valuation

Failure to reduce water and sewer fund deficits by 2015

KEY STATISTICS:

2013 Full Valuation: \$3.6 billion

2013 Full Value per Capita: \$122,833

2010 Median Family Income (as a % of US): \$115,159 (175.2%)

FY 2013 Available Operating Fund Balance as a % of Operating Revenues: 13.7%

5-Year Dollar Change in Fund Balance as a % of Operating Revenues: -21.7%

FY 2013 Operating Net Cash Balance as a % of Operating Revenues: 16%

5-Year Dollar Change in Operating Net Cash Balance as a % of Operating Revenues: -25.2%

Institutional Framework: A

5-Year Average of Operating Revenues/Operating Expenses: 0.97x

2012 Net Direct Debt Burden: 0.7% of full value

Net Direct Debt /Operating Revenues: 0.21x

3-Year Average Moody's Adjusted Net Pension Liability/Full Value: 0.26%

3-Year Average Moody's Adjusted Net Pension Liability/Operating Revenues: 0.6x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Spaulding, Jeb

From: Frank Cioffi [REDACTED]
Sent: Monday, June 16, 2014 12:23 AM
To: Miller, Elizabeth; Spaulding, Jeb
Cc: MoultonPowden, Pat; Gosselin, Lisa; Ernie Pomerleau; Torti, Tom
Subject: IBM Situation Update
Attachments: IBM VT Situation Analysis 6-15-14.pdf

Hi Liz and Jeb,

Please give this to the Governor and anyone on your team that you deem appropriate.
Pat and I met w/ Janette at IBM on Friday and Pat was awesome !

I recently had shoulder surgery and am typing one-handed so please excuse errors...

My opinion: IBM will sell the division as soon as possible.
Global Foundries is the leading prospect.

Vermont will need to bring its "A game" or we will be cast aside in a heart beat...
We all need to focus on the 4,000 Vermonters and their families.
VT will have to be ready to assist a successor company in order to save jobs.
We ave NO idea about timing but we must be ready...
We need to model VEGI incentives ASAP as a plant closure with modeling scenarios of:
1,000 jobs
1,500 jobs
2,000 jobs
2,500 jobs
3,000 jobs
3,500 jobs
4,000 jobs
Fred Kenney and Ken Jones know how to do this.

Lots of ideas at end of the document for you.

This document is our opinion but we think it is pretty accurate.

Please thank the Governor for his good work Vermont.

Best,
Frank

Frank Cioffi
President
GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401
Office: [REDACTED]
Cell: [REDACTED]
email: [REDACTED]
Website: www.gbicvt.org
Promoting Good Jobs in a Clean Environment



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GBIC

Good Jobs In A Clean Environment

IBM Vermont: Situation Analysis

June 15, 2014

The following is GBIC's opinion of where we are regarding IBM VT as of 6-15-14

IBM will sell the Microelectronics Manufacturing Division

The leading prospect appears to be Global Foundries owned by the United Arab Emirates. Global Foundries has a state of the art microelectronics facility in Malta NY. Estimated at \$8+ billion investment and responsible for creating 6,000 + jobs in the region. It is the most advanced microelectronics cluster in the world.

IBM VT Facts:

600 acres

3.5 million sq ft (350,000 sq ft in Williston 3.1+ million sq ft in Essex Jct.)

Wastewater treatment facility of 4.4 million gallons per day capacity

Electric infrastructure and power use greater than the City of Burlington

IBM VT basically has 3 businesses:

- Semiconductor design and manufacturing
- Wafer Testing
- Photo Mask House

Even though our buildings are older and the equipment is older the technology that we use, because of the innovation of the VT R & D people (scientists etc), IBM VT technologies have been innovated to create huge value.

IBM VT has cornered most of the global markets for chips in the hand held (cell phone etc) manufacturers.

Singapore is the only place that can compete w/ what we do.

IBM VT business facts:

Frank Cioffi, President

• P.O. Box 786 • 60 Main St., Burlington, VT 05402 •

Tel. [REDACTED] • Fax: [REDACTED] • [REDACTED] • www.gbicvt.org



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- 200 mm wafers
- Line width is 90 nanometers.
- Technology is: CMOS, SIGE & RFSOI

IBM VT Infrastructure:

Wastewater treatment facility of IBM VT is approximately 4.4 million gallons per day capacity. Very good facility and capable of treating a significant waste stream: hydraulic and BOD

The facility has significant value and GBIC estimates that it could provide capacity for 500,000 additional sq ft of manufacturing in Essex Jct on a 60 acre vacant parking lot and 1 million + sq ft in Williston provided that the Town of Williston zones accordingly. GBIC thinks 400,000 sq ft of additional manufacturing space could be easily built on IBM land in Williston that is already zoned industrial.

If IBM wanted to sell the wastewater treatment facility and the Towns of Essex and Williston and the Village of Essex Jct. wanted to own the facility then the state and feds must help the municipalities w/ capital \$ to acquire, fit up and operate the wastewater treatment facility.

The facility could be a huge asset to the region and the state and it would eliminate the need to create a greenfields industrial parks elsewhere. The sewer/water distribution infrastructure would need to be added to be placed on the lots but the treatment facility is there as is electricity, natural gas, water etc. This is a huge asset and is VERY smart growth.

Competitors:

IBM East Fishkill NY:

300 mm wafers

Line width is 90 to 14 nanometers

Technology is: GaaS

Makes chips for servers and needs lots of volume

Frank Cioffi, President

2

• P.O. Box 786 • 60 Main St., Burlington, VT 05402 •

Tel. [REDACTED] • Fax: [REDACTED] • [REDACTED] • www.gbicvt.org



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Very expensive to operate...

Global Foundries in Malta NY:

The most advanced microelectronics in the world

Nano and going to 450 mm (the most advanced in the world)

Line width is 7 nanometers

Technology is GaaS

Their "fab" in Malta was about a \$8 billion + investment

Makes chips for main frames, server farms, cloud storage etc. M

Global Foundries operates in the most expensive and most advanced microelectronics technologies in the world.

Global Foundries does not have the customers of IBM VT or IBM Fishkill.

NY State:

NY State is aggressively pursuing all existing and new businesses with huge incentives for retention and job creation and investment.

Frank Cioffi, President

• P.O. Box 786 • 60 Main St., Burlington, VT 05402 •

Tel. [REDACTED] • Fax: [REDACTED] • [REDACTED] • www.gbicvt.org



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GBIC believes that this is WHAT VT WILL NEED TO DO:

If IBM VT is sold then the State of VT will have to bring its "A Game".

There are 4,000 Vermonters that currently directly work for IBM VT and the job multiplier is easily 2 time the direct jobs; so over 8,000 Vermont families count on IBM VT for their economic wellbeing.

VT will need to use the VEGI (Vermont Employment Growth Incentives) incentive program. A successor to IBM VT would qualify for VEGI as it would be equated and defined as a "plant closure" and even though it would appear to be retention of existing jobs "but for" the incentives the jobs would be gone forever,,, The jobs created and the investment in facilities, equipment and in people (jobs) will more than make up for any incentives.

VT will also need to develop special electric rates like other states do for industry. These operations are highly energy intensive and must have low rates. VT cannot expect GMP to shoulder this burden alone.

VT will really need to seek to hold operating tax costs to a bare minimum.

Job training and other assistance will be a must.

We must consider creating special job zones for incentives.

GBIC believes that if VT does not bring its "A game" then any successor will close the VT operations in 3 years and move whatever to a site that appreciates and values job creation, investment and economic development.

Frank Cioffi, President

• P.O. Box 786 • 60 Main St., Burlington, VT 05402 •

Tel. [REDACTED] • Fax: [REDACTED] • [REDACTED] • www.gbicvt.org

Spaulding, Jeb

From: Frank Cioffi [REDACTED]
Sent: Monday, June 16, 2014 10:29 AM
To: Miller, Elizabeth
Cc: Spaulding, Jeb
Subject: Re: IBM Situation Update

Thanks Liz!
I will call you this afternoon.
Best regards,
Frank

Sent from my iPad. Please excuse brevity and typos.

On Jun 16, 2014, at 9:59 AM, "Miller, Elizabeth" <Elizabeth.Miller@state.vt.us> wrote:

Thank you. We are actively engaged and appreciate your thoughts. Feel free to call to discuss further if you'd like. Liz

Elizabeth H. Miller
[REDACTED] cell
elizabeth.miller@state.vt.us

On Jun 16, 2014, at 12:22 AM, "Frank Cioffi" [REDACTED] wrote:

Hi Liz and Jeb,
Please give this to the Governor and anyone on your team that you deem appropriate.
Pat and I met w/ Janette at IBM on Friday and Pat was awesome !

I recently had shoulder surgery and am typing one-handed so please excuse errors...

My opinion: IBM will sell the division as soon as possible.
Global Foundries is the leading prospect.

Vermont will need to bring its "A game" or we will be cast aside in a heart beat...
We all need to focus on the 4,000 Vermonters and their families.
VT will have to be ready to assist a successor company in order to save jobs.
We ave NO idea about timing but we must be ready...
We need to model VEGI incentives ASAP as a plant closure with modeling scenarios of:
1,000 jobs
1,500 jobs
2,000 jobs
2,500 jobs
3,000 jobs
3,500 jobs
4,000 jobs
Fred Kenney and Ken Jones know how to do this.

Lots of ideas at end of the document for you.

This document is our opinion but we think it is pretty accurate.

Please thank the Governor for his good work Vermont.

Best,
Frank



Frank Cioffi
President

GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401

Office:

Cell:

email:

Website: www.gbicvt.org

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<IBM VT Situation Analysis 6-15-14.pdf>

Mishaan, Jessica

From: Miller, Elizabeth
Sent: Tuesday, June 24, 2014 2:33 PM
To: Mishaan, Jessica
Subject: FW: IBM incentives

From: Frank Cioffi [mailto: [REDACTED]]
Sent: Thursday, March 13, 2014 10:09 AM
To: Miller, Elizabeth
Subject: Re: IBM incentives

Liz,
Thanks very much for your time today.
Sincerely appreciated.
The Governor and our state are incredibly fortunate to have you!
Best regards,
Frank

Frank Cioffi
President
GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401
Office: [REDACTED]
Cell: [REDACTED]
email: [REDACTED]
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On Wed, Mar 12, 2014 at 8:32 PM, Miller, Elizabeth <Elizabeth.Miller@state.vt.us> wrote:
How about tomorrow at 8 a.m.? I'm here in Montpelier but morning meetings have fallen by the wayside due to snow. If that works, call my cell number below...Liz

Elizabeth H. Miller
[REDACTED] cell
elizabeth.miller@state.vt.us

On Mar 12, 2014, at 4:48 PM, "Frank Cioffi" [REDACTED] wrote:

Liz,

I know that things are crazy busy for you so always feel free to call me anytime on my cell: [REDACTED]

[REDACTED] which is always the best # to reach me.

If I don't pick up then please leave me a message and I will call back ASAP.

Best regards,

Frank

Frank Cioffi

President

GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.

60 Main Street Burlington, Vermont, USA 05401

Office: [REDACTED]

Cell: [REDACTED]

email: [REDACTED]

Website: www.gbicvt.org

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On Wed, Mar 12, 2014 at 2:32 PM, Miller, Elizabeth <Elizabeth.Miller@state.vt.us> wrote:
Thanks Frank. Do you have time later today to chat about this?

Elizabeth H. Miller

[REDACTED] cell

elizabeth.miller@state.vt.us

On Mar 12, 2014, at 2:07 PM, "Frank Cioffi" [REDACTED] wrote:

Thanks Lawrence. Understand that things are crazy busy for all of you!

Sent from my mobile; please excuse brevity, typos, etc.

On Mar 12, 2014, at 2:03 PM, "Miller, Lawrence"
<Lawrence.Miller@state.vt.us> wrote:

Acknowledged.

Lawrence Miller, ACCD

From: Frank Cioffi [mailto:]
Sent: Wednesday, March 12, 2014 1:03 AM
To: Spaulding, Jeb; Miller, Elizabeth; Miller, Lawrence
Subject: IBM incentives

Dear Jeb, Liz and Lawrence,

Would you please forward this email and attachments to the Governor and also please read it yourself as well.

We have been trying to research possible changes at IBM and we have been increasingly hearing from many Vermont employers that they are being aggressively recruited by the State of New York, other states and countries.

Recent economic events in the semiconductor manufacturing industry, dynamic corporate restructuring and employment reductions affected by poor earnings and the exploration of the divestiture of IBM's semiconductor manufacturing division lead me to believe that time is critically of the essence for Vermont to take action on some incentives to encourage IBM to sustain its Vermont campus, retain jobs and continue to invest in research and development which drives all other jobs and campus economic activities.

GBIC has been researching recruitment activities by the State of New York directed at IBM and other semiconductor industry leaders both present and in the past years.

Attached, in PDF format, we present an analysis of the monumental incentive package that the State of New York enacted to attract a multi billion dollar investment by Global Foundries to attract thousands of new jobs and create a globally renown semiconductor development and manufacturing cluster.

Included in the package is an economic analysis of the Global Foundries incentive package. The study also includes a very good explanation of how the microelectronics development and manufacturing industry works globally.

For a state our size it is incomprehensible that we could ever match the scale of an incentive package like the Global Foundries-New York package but the elements of the package and the kinds of incentives that the State of New York have offered in the past and are offering now represent the competitive landscape for domiciles (nations, states and regions) that are seeking high wage, high-value added job creation and economic investment.

Also included is information about the State of New York's announced deal w/ IBM related to the retention of certain employment levels.

Please let me know how we can help in any meaningful way possible.

And finally, thank you very much for your hard work for Vermont and for all of your time and energy devoted to public service in our state.

Sincerely,

Frank

Frank Cioffi

President

GBIC~Greater Burlington Industrial Corporation and
Cynosure, Inc.

60 Main Street Burlington, Vermont, USA 05401

Office: [REDACTED]

Cell: [REDACTED]

email: [REDACTED]

Website: www.gbivt.org

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Mishaan, Jessica

From: Miller, Elizabeth
Sent: Tuesday, June 24, 2014 2:34 PM
To: Mishaan, Jessica
Subject: FW: WSJ re: IBM

From: Frank Cioffi [mailto: [REDACTED]]
Sent: Friday, February 07, 2014 4:16 PM
To: Miller, Elizabeth
Subject: Fwd: WSJ re: IBM

Hi Liz,
Just picked up my office voice mail and got your voicemail.

My apology, I have been in UVM Board meetings all day today and on a short break now.

I have not heard anymore other than rumors about lay offs...

There is also other speculation about IBM Corp considering selling off chip manufacturing.
I believe that came from the following Wall Street Journal story.

I sent the story to Lawrence, Lucy and Lisa earlier today.

The story says that if IBM goes in that direction then they would most likely retain the chip design capabilities.
Which is R & D.

I have some thoughts to share and feel free to give me a call on my cell if you would like to discuss: [REDACTED]

[REDACTED]
My next commitment is at 6 pm

Best regards,
Frank

Frank Cioffi
President
GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401
Office: [REDACTED]
Cell: [REDACTED]
email: [REDACTED]
Website: www.gbicyt.org

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IBM Looking to Sell Chip Manufacturing Operations

Feb. 6, 2014 10:13 p.m. ET



International Business Machines Corp. IBM +0.80% is exploring the sale of its semiconductor manufacturing operations, said a person familiar with the matter.

IBM operates factories that make computer chips for its own high-end server systems as well as for external customers. The company is looking for a buyer for its manufacturing operations, but plans to retain its chip-design capability, this person said.

Chip manufacturing is a very capital-intensive and volatile business. Shedding those operations could help boost IBM's profitability, and dovetail with recent moves by the company to reduce its reliance on selling computer hardware.

IBM recently struck a deal to sell its low-end server business to Lenovo Group Ltd. 0992.HK +1.32% IBM still makes mainframes and high-end servers based on internally designed chips, though sales of servers that use the Unix operating system have been tumbling in recent quarters.

The Financial Times reported news of the sale plan Thursday.

Toni Sacconaghi, an analyst at Sanford C. Bernstein, said in a recent interview that IBM has less of an economic rationale for its own chip manufacturing plants as the company focuses less on servers.

IBM is also making fewer chips for external customers, giving it more of a reason to jettison the unit, he said.

IBM's factories made chips used in the last generation of videogame consoles from Sony Corp. 6758.TO +4.13% and Microsoft Corp. MSFT +1.01% , but both companies shifted their latest machines to chips from Advanced Micro Devices Inc. AMD +3.02%
IBM still makes chips used in Nintendo Co. 7974.TO +1.82% 's Wii system.
In the nine months ending September 30, 2013, sales of IBM's microelectronics unit fell about 3%, according to the most recent financial filing.

Bernstein estimates that the unit generated about \$1.75 billion in revenue last year, while losing \$130 million in pretax income. It predicts the unit will shrink to \$1.45 billion in revenue in 2014, while losing another \$130 million in pretax income.

In 2000, IBM announced a \$2.5 billion investment to build a cutting-edge computer chip fabrication plant in East Fishkill, N.Y., then the largest capital investment in its history.

The move was part of a total \$5 billion capital investment plan to support IBM's semiconductor business around the world.

Besides the cost of chip factories and equipment, which frequently run into billions of dollars, IBM and other companies spend heavily on developing new production recipes to keep improving the performance, data-storage capacity and cost of chips.

IBM for years has tried to share the costs of developing new processes with other semiconductor makers, in some cases relying on facilities established at the State University of New York at Albany.

Sent from my mobile; please excuse brevity, typos, etc.

Mishaan, Jessica

From: Miller, Elizabeth
Sent: Tuesday, June 24, 2014 2:35 PM
To: Mishaan, Jessica
Subject: FW: Economic Incentive Ideas for IBM...
Attachments: IBM & Incentives Ideas Memo to Sec Miller 1-3-14.docx

From: Frank Cioffi [mailto: [REDACTED]]
Sent: Friday, January 03, 2014 8:29 AM
To: Miller, Lawrence
Cc: Gosselin, Lisa; Bourgeois, Kiersten; Kenney, Fred; Jones, Kenneth; Seth Bowden; Curt Carter; Catherine Z. Davis; Betsy Bishop; Dale Rocheleau; Joe Choquette; Frank Cioffi; Miller, Elizabeth
Subject: Economic Incentive Ideas for IBM...

Happy New Year Lawrence !

Attached is a document, in MS word format, that contains some ideas for economic incentives for the state to consider in assisting the retention and preservation of jobs and the continued R & D investments at IBM. A number of the ideas are applicable to a statewide model designed to retain the economic pillars in our state's counties/regions.

Please let us know how we can be helpful to you in accomplishing the deliverables to IBM and the state's other strategic employers that anchor our regional/state economy.

Thank you for your hard work and continued leadership. We greatly appreciate it.

Best regards,

Frank

Frank Cioffi
President
GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.
60 Main Street Burlington, Vermont, USA 05401
Office: [REDACTED]
Cell: [REDACTED]
email: [REDACTED]
Website: www.gbicvt.org

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GBIC

Good Jobs In A Clean Environment

January 3, 2014
Lawrence Miller
Secretary, Agency of Commerce and Community Development
1 National Life Drive
6th Floor
Montpelier, VT 05620

Dear Secretary Miller:

In early December IBM pulled together GBIC, the LCRCC, the Vermont Chamber, and DRM to discuss the political and legislative landscape for the upcoming year, and for the future of IBM Vermont. From this discussion it became immediately apparent that there are significant, though achievable, challenges IBM must overcome to maintain its market competitiveness and, in turn, maintain their development and employment position in Vermont.

Following this conversation, this group of organizations continued the conversation to come up with creative, new ideas on how the State could take actions that would help to retain the investments IBM has here already.

Following and attached, please see a rough draft list of ideas for discussion. Special thanks go to the work of Dale Rocheleau (DRM), Joe Choquette (DRM), Betsy Bishop (State Chamber), and the GBIC/LCRCC staff for their contributions to this work.

Ideas for Discussion:

- GMP/Energy agreement: Support a preferential rate agreement between Green Mountain Power and IBM. This could include options to purchase lowest rate energy available in portfolio and omission of requirements to pay into the standard offer program.
 - o The State could use their authority to purchase power directly and provide this preferential rate to IBM
 - o Expansion of the power purchase incentives available to ski areas
 - o Create a new Economic Development Incentive Program (EDIP) for Vermont Strategic Employers
- Create a Vermont Strategic Employer Designation: Emergency Employer Competitiveness Program. This program is primarily intended to be a jobs retention tool targeted to retain jobs at "pillar" employers within each region of the State. These Strategic Employers are a region's most valued for-profit, export orientated, dollar importing economic contributors and employers. Designate a period of 10 years for up to three employers in each region as "Strategic Employers." Service the changing needs of strategic employers and demonstrate the value to Vermont of these employers.

Frank Cioffi, President

• P.O. Box 786 • 60 Main St., Burlington, VT 05402 •
Cell. [REDACTED] • Office: [REDACTED] • [REDACTED] • www.gbicvt.org



GBIC

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Incentives and/or exemptions for Strategic Employer designees could include:

- A VEGI like cash incentive for product research and development that rebates Vermont income tax withholding on the salaries and wages of the existing R&D employees of Strategic Employers.
 - Mechanism can be triggered by "new product development projects"
 - The basis for the incentive could be the salary of developer positions/teams
- Suspend VT Sales Taxes on Strategic Employers (might go directly to Parent company – needs to be examined if this would be beneficial)
- Eliminate permitting fees for Strategic Employers
- Eliminate utility surcharges on Strategic Employers
 - Mitigate or achieve through discussions with the Public Service Board?
 - New thermal efficiency charge will come under this category
- Eliminate property tax increases for Strategic Employers
- Eliminate corporate income tax

Other Incentive Ideas:

- Health care: The State currently receives significant Federal funds for the implementation of health care reform. The State could initiate a pilot program recognizing employer wellness initiatives whereby program participants would receive a grant from the state for their contributions to employee wellness programs (similar to the Self Managed Energy Efficiency Program).
 - A pared down version of this concept is for participants to get an exemption from tax increases on their claims assessment.
- Capital Appropriation: A direct way for the state to meet the support target is simply to add it as a capital appropriation.
 - Finding an already existing line item as a mechanism for this transfer could smooth the process in discussions.
 - Is there a way to direct the R&D Tax Credit into a cash incentive for this purpose?
- Workforce Development: Direct cash support to cover wages and/or on the job training would help bolster productivity and speed of employee workforce integration. Ongoing support will be required for this to be meaningful

Sincerely,

Frank Cioffi
President, GBIC

Frank Cioffi, President

• P.O. Box 786 • 60 Main St., Burlington, VT 05402 •

Cell. [REDACTED] • Office: [REDACTED] • [REDACTED] • www.gbicvt.org

Mishaan, Jessica

From: Miller, Elizabeth
Sent: Tuesday, June 24, 2014 3:34 PM
To: Mishaan, Jessica
Subject: FW: GlobalFoundries

From: Trombley, Shana
Sent: Friday, April 18, 2014 3:50 PM
To: Miller, Elizabeth
Subject: GlobalFoundries

Hi –

I just rec'd a call from Mike Russo who is head of US Gov't Relations for GlobalFoundries. He is reaching out on behalf of Sanjay Jha as the initial step. I told him you were in a meeting but would get back in touch with him. Here is his contact info:

[REDACTED] office

[REDACTED] cell

[REDACTED]

Shana Trombley
Scheduler
Office of the Governor
802.828.3333 (o)

[REDACTED]
shana.trombley@state.vt.us

Visit Governor Shumlin's Online Resources:

[Website](#) | [Facebook](#) | [Twitter](#) | [YouTube](#)

Mishaan, Jessica

From: Miller, Elizabeth
Sent: Tuesday, June 24, 2014 3:10 PM
To: Mishaan, Jessica
Subject: FW: Possible Dates for IBM Meeting

From: Clarence E. Davis [mailto: [REDACTED]]
Sent: Monday, May 12, 2014 1:57 PM
To: Miller, Elizabeth
Subject: Re: Possible Dates for IBM Meeting

Thanks, I'll wait to hear from Shana.

CED

Clarence E. Davis
Special Assistant to the President & Director of State Relations
The University of Vermont
85 South Prospect Street
Burlington, VT 05405
Phone: [REDACTED]
Email: [REDACTED]
Webpage: <http://www.uvm.edu>

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On May 12, 2014, at 1:52 PM, Miller, Elizabeth <Elizabeth.Miller@state.vt.us> wrote:

Great thanks. Shana will get back to you but I believe she will work on July 1 or 2; the 30th is out for us. Appreciate it...Liz

From: Clarence E. Davis [mailto:clarence.davis@uvm.edu]
Sent: Monday, May 12, 2014 12:51 PM
To: Miller, Elizabeth
Subject: Possible Dates for IBM Meeting

Liz,

I have gotten the following possible dates for a meeting with UVM, IBM and your team:

June 30, 2-5pm

July 1, 2-5pm

July 2, 2-5pm

Can you let me know if any of these work?

Thanks,
Clarence

Clarence E. Davis
Special Assistant to the President & Director of State Relations
The University of Vermont
85 South Prospect Street
Burlington, VT 05405
Phone: [REDACTED]
Email: [REDACTED]
Webpage: <http://www.uvm.edu>

"UVM is subject to the Vermont Public Records Act and communications to and from this email address, including attachments, are subject to disclosure unless exempted under the Act or otherwise applicable law."

Mishaan, Jessica

From: Miller, Elizabeth
Sent: Tuesday, June 24, 2014 3:09 PM
To: Mishaan, Jessica
Subject: FW: East Fishkill Rating
Attachments: Moody's assigns negative outlook to East Fishkill Town NY's.pdf - Adobe Reader.pdf; ATT00001.htm

From: Spaulding, Jeb
Sent: Wednesday, June 11, 2014 7:52 PM
To: Miller, Elizabeth
Subject: Fwd: East Fishkill Rating

Shorter version forthcoming.

Jeb Spaulding, via mobile
Secretary of Administration
State of Vermont

Begin forwarded message:

From: "Pearce, Beth" <Beth.Pearce@state.vt.us>
Date: June 11, 2014 at 7:04:50 PM EDT
To: "Spaulding, Jeb" <Jeb.Spaulding@state.vt.us>
Cc: "Wisloski, Stephen" <Stephen.Wisloski@state.vt.us>
Subject: East Fishkill Rating

Courtesy of PRAG:

Here is the full rating report. Lots of moving parts including operating deficits, depleted reserves, water & sewer fund issues as well as IBM.

MOODY'S

INVESTORS SERVICE

Rating Update: Moody's assigns negative outlook to East Fishkill Town, NY's GOLT

Global Credit Research - 09 Jun 2014

Town has \$23.6 million of rated GOLT debt

EAST FISHKILL (TOWN OF) NY
Cities (including Towns, Villages and Townships)
NY

Opinion

NEW YORK, June 09, 2014 --Moody's Investors Service has assigned a negative outlook to the rating on East Fishkill Town, NY's outstanding general obligation bonds, affecting approximately \$23.6 million of rated debt. Concurrently, we have affirmed the rating at Aa2. The bonds are secured by the town's general obligation pledge as limited by the Property Tax Cap Legislation (Chapter 97, Part A) of the Laws of the State of New York, 2011.

RATING RATIONALE

The affirmation at Aa2 reflects the town's strong underlying credit characteristics; specifically its large tax base, strong wealth levels, low direct debt burden and modest pension burden.

The assignment of the negative outlook captures our expectation that the town's financial position, which has narrowed after four straight operating deficits, could continue to weaken in the near term due to structural imbalance in the general fund and pressure from weak water and sewer funds.

STRENGTHS

Large, wealthy tax base

Modest debt and pension burden

CHALLENGES

Trend of financial declines leading to material reduction in the town's reserve position

Enterprise risk associated with weak water and sewer funds

IBM likely to leave the area in 2014 or 2015, leading to some economic uncertainty

Tax base has declined significantly since the start of the financial crisis

DETAILED CREDIT DISCUSSION

PREVIOUSLY STRONG FINANCIAL POSITION HAS FALLEN SIGNIFICANTLY

The town finished 4 of the last 5 years with operating deficits, diminishing its reserves to a level that compares unfavorably with the majority of its similarly-sized peers. Faced with significant budgetary pressure from both a revenue and expenditure standpoint, management adopted a financial strategy designed to minimize expenditure cuts and tax increases at the expense of its reserve position. The town instituted a series of small property tax increases, which were enough to counter falling assessed values and an approximately 58% reduction in mortgage tax revenues, but did not allow the town to offset rising costs. As a result, available operating fund balance (including the general and highway funds) fell 61.3%, to \$2.3 million (13.7% of revenues) in 2013 (unaudited) from \$5.9 million (33.3% of revenues) in 2009.

The town is projecting an additional \$420,000 operating deficit for 2014, which would bring available operating fund balance down to approximately \$1.8 million (11.2% of 2013 revenues), a level of reserves that is very low for the rating. Management projects that it will be able to start growing available fund balance back towards its targeted \$3

million in 2015, using a projected \$600,000-\$700,000 of one-time proceeds associated with an upcoming sale of town property. In addition, the town is in the process of expanding its water system, tapping into water-rich wetlands on recently-purchased property. Management reports that once this new enterprise is fully operational in 2015 or 2016, it will generate profits that will go towards restoring fund balance. Further declines beyond what is expected in 2014, or failure to improve fund balance levels in 2015, will negatively pressure the rating.

RECEIVABLE FROM WEAK WATER AND SEWER FUNDS ADDS TO FINANCIAL UNCERTAINTY

The town's fund balance includes a combined \$995,000 account receivable due from its water and sewer funds, which both had negative fund equity in 2013. These receivables have grown significantly over the last 4 years, as the general fund increased its support to two financially imbalanced water districts and fronted cash for an ongoing sewer expansion project. Management projects that the sewer fund portion of the receivable (\$406,000) will be repaid in 2014 as new users connect to the expanded system. In addition, the town significantly raised rates in the troubled water districts during the current year, which are expected to repay the general fund over the next 3 or 4 years. Both funds had additional operating deficits in 2013 and currently sit at a combined -\$201,000 fund equity. Failure to improve financially and repay the general fund on the expected timelines would likely lead us to reconsider the status of the general fund receivables, creating additional rating pressure.

LARGE, WEALTHY TAX BASE HAS DECLINED; POTENTIAL DEPARTURE OF LARGEST TAXPAYER

The town's tax base is large and wealthy, benefitting the rating despite recent declines. Located in Dutchess County (Aa2, stable outlook) approximately 70 miles north of New York City (Aa2, stable outlook), the town is primarily residential. Full value is large at \$3.6 billion, but has declined significantly (24.7%) over the last 5 years due to falling home prices, even as the population continued to grow (up 13.4% since 2000). Management reports that while new home sales remain somewhat depressed, foreclosure rates continue to be low and permitting for home additions has increased, indicating that the economy may be stabilizing. Wealth levels in the town are strong, with median family income at \$115,159 (175.2% of the US median) and full value per capita is a sizable \$122,833.

The potential departure of the town's largest taxpayer, IBM, adds a degree of uncertainty that has the potential to negatively pressure the rating. IBM anchors the high tech-oriented Hudson Valley Research Park, which is a key driver for the local economy. Management estimates that the company could sell its remaining microchip manufacturing plant located in the town at some point over the next 2 years. We expect that the attractiveness of the property, combined with management's efforts to streamline the permitting process and attract new businesses, mean that IBM would be able to sell the property for close to market value. Notably, 7.3% of operating revenues come from a PILOT payment from IBM.

MODEST DEBT BURDEN

The town's direct debt burden is a modest 0.7% of full value, reflecting both the limited nature of its obligations as well as the size of the tax base. The town's debt is likely to remain manageable as its only upcoming debt plans include approximately \$1.5 million of additional GOLT bonds for the continuation of the water system expansion in 2014.

The town participates in two defined benefit cost-sharing plans, one for local employees (NYSERS) and one for police and fire (NYSPFRS). The town is paying its full actuarially required contribution (ARC) for the plans and does not plan to amortize its pension payments. Moody's 3-year average combined adjusted net pension liability (ANPL) for the town, under our methodology for adjusting reported pension data, was \$9.7 million in 2012, or a modest 0.6 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run system in proportion with its contributions to the plan. Notably, the town's actuarial accrued liability for its OPEB program is \$32.3 million, which is being covered on a pay-as-you-go basis.

WHAT COULD MAKE THE RATING GO UP (REMOVAL OF NEGATIVE OUTLOOK)

Trend of operating surpluses improving available fund balance to prior levels

Significant turnaround in the tax base trend, leading to large full value growth

WHAT COULD MAKE THE RATING GO DOWN

Additional deficits beyond expected 2014 results

Loss of IBM plant without a new buyer or sale of the plant at a significantly reduced valuation

Failure to reduce water and sewer fund deficits by 2015

KEY STATISTICS:

2013 Full Valuation: \$3.6 billion

2013 Full Value per Capita: \$122,833

2010 Median Family Income (as a % of US): \$115,159 (175.2%)

FY 2013 Available Operating Fund Balance as a % of Operating Revenues: 13.7%

5-Year Dollar Change in Fund Balance as a % of Operating Revenues: -21.7%

FY 2013 Operating Net Cash Balance as a % of Operating Revenues: 16%

5-Year Dollar Change in Operating Net Cash Balance as a % of Operating Revenues: -25.2%

Institutional Framework: A

5-Year Average of Operating Revenues/Operating Expenses: 0.97x

2012 Net Direct Debt Burden: 0.7% of full value

Net Direct Debt /Operating Revenues: 0.21x

3-Year Average Moody's Adjusted Net Pension Liability/Full Value: 0.26%

3-Year Average Moody's Adjusted Net Pension Liability/Operating Revenues: 0.6x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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Mishaan, Jessica

From: Miller, Elizabeth
Sent: Tuesday, June 24, 2014 3:40 PM
To: Mishaan, Jessica
Subject: FW: Meeting with Gov. Shumlin & UVM Leadership

From: Miller, Elizabeth
Sent: Thursday, June 12, 2014 3:19 PM
To: Trombley, Shana
Subject: Re: Meeting with Gov. Shumlin & UVM Leadership

Pat me Aly Jeb invited

Sent from my iPhone

On Jun 12, 2014, at 3:05 PM, "Trombley, Shana" <Shana.Trombley@state.vt.us> wrote:

John Kelly is confirmed and UVM team is too. Who from our team do you want to be there?

Sent from my iPhone
Shana Trombley
Scheduler
Office of the Governor
[REDACTED]

Begin forwarded message:

From: Linda Padmore [REDACTED]
Date: June 11, 2014 at 4:48:17 PM EDT
To: "Trombley, Shana" <Shana.Trombley@state.vt.us>
Subject: Re: Meeting with Gov. Shumlin & UVM Leadership

Shana, John Kelly and Tom Rosamilia spoke ----- to get things moving along, they agreed that John will visit with Governor Shumlin alone.

Can we lock in July 29 - Tuesday - 2:00-3:00pm edt ?

Linda

=====
Linda A. Padmore
Assistant to Dr. John E. Kelly III
Senior VP & Director of Research
IBM Corporation - Bldg 801
1101 Kitchawan Road, Route 134
Yorktown Heights, New York 10598
[REDACTED]
=====

<graycol.gif>"Trombley, Shana" ---06/06/2014 08:08:33 AM---Thank you Sent from my iPhone

From: "Trombley, Shana" <Shana.Trombley@state.vt.us>
To: Linda Padmore/Watson/IBM@IBMUS,
Date: 06/06/2014 08:08 AM
Subject: Re: Meeting with Gov. Shumlin & UVM Leadership

Thank you

Sent from my iPhone
Shana Trombley
Scheduler
Office of the Governor
[REDACTED]

On Jun 6, 2014, at 8:06 AM, "Linda Padmore" [REDACTED] wrote:

Shana, I'll get back to youI'll need to make sure John Kelly and Tom Rosamilia will both be available.
Back to you soon!

=====
Linda A. Padmore
Assistant to Dr. John E. Kelly III
Senior VP & Director of Research
IBM Corporation - Bldg 801
1101 Kitchawan Road, Route 134
Yorktown Heights, New York 10598
[REDACTED]
=====

<graycol.gif>"Trombley, Shana" ---06/04/2014 09:50:47 AM---Hello Linda, Can you tell me if any of these dates will work for a meeting with Gov. Shumlin and UVM

From: "Trombley, Shana" <Shana.Trombley@state.vt.us>
To: Linda Padmore/Watson/IBM@IBMUS,
Date: 06/04/14 09:50 AM
Subject: RE: Meeting with Gov. Shumlin & UVM Leadership


Hello Linda,

Can you tell me if any of these dates will work for a meeting with Gov. Shumlin and UVM?

July 8 - 1pm or 2pm

July 21 - 1pm or 2pm
July 22 - 1pm or 2pm
July 24 - anytime except for 1-2pm
July 29 - between 9 and 3pm

Thank you,

Shana Trombley
Scheduler
Office of the Governor
802.828.3333 (o)

shana.trombley@state.vt.us

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Mishaan, Jessica

From: Miller, Elizabeth
Sent: Tuesday, June 24, 2014 3:35 PM
To: Mishaan, Jessica
Subject: FW: IBM Situation Update

From: Miller, Elizabeth
Sent: Monday, June 16, 2014 10:00 AM
To: Frank Cioffi; Spaulding, Jeb
Subject: Re: IBM Situation Update

Thank you. We are actively engaged and appreciate your thoughts. Feel free to call to discuss further if you'd like. Liz

Elizabeth H. Miller
[REDACTED] cell
elizabeth.miller@state.vt.us

On Jun 16, 2014, at 12:22 AM, "Frank Cioffi" [REDACTED] wrote:

Hi Liz and Jeb,
Please give this to the Governor and anyone on your team that you deem appropriate.
Pat and I met w/ Janette at IBM on Friday and Pat was awesome !

I recently had shoulder surgery and am typing one-handed so please excuse errors...

My opinion: IBM will sell the division as soon as possible.
Global Foundries is the leading prospect.

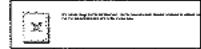
Vermont will need to bring its "A game" or we will be cast aside in a heart beat...
We all need to focus on the 4,000 Vermonters and their families.
VT will have to be ready to assist a successor company in order to save jobs.
We ave NO idea about timing but we must be ready...
We need to model VEGI incentives ASAP as a plant closure with modeling scenarios of:
1,000 jobs
1,500 jobs
2,000 jobs
2,500 jobs
3,000 jobs
3,500 jobs
4,000 jobs
Fred Kenney and Ken Jones know how to do this.

Lots of ideas at end of the document for you.

This document is our opinion but we think it is pretty accurate.

Please thank the Governor for his good work Vermont.

Best,
Frank



Frank Cioffi

President

GBIC~Greater Burlington Industrial Corporation and Cynosure, Inc.

60 Main Street Burlington, Vermont, USA 05401

Office:

Cell:

email:

Website: www.gbicvt.org

Promoting Good Jobs in a Clean Environment



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<IBM VT Situation Analysis 6-15-14.pdf>