

FOR CONSIDERATION

August 19, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Brewster (Putnam County) and Tarrytown (Westchester County) – Akzo Nobel Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions; Determination of No Significant Effect on the Environment

General Project Plan

I. Project Summary

Grantee: Akzo Nobel Surface Chemistry LLC (“ANSC” or the “Company”)

Beneficiary
Companies: Akzo Nobel Functional Chemicals LLC
Akzo Nobel Services Inc.
Eka Chemicals Inc.

ESD* Investment: A grant of up to \$292,300, to be used for a portion of the cost of the purchase and installation of new machinery and equipment.

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

Project Locations: 281 Fields Lane, Brewster, Putnam County
120 White Plains Road, Suite 300, Tarrytown, Westchester County

NYS Empire Zone
(or equivalent): N/A

Proposed Project: Relocation and creation of a new research and development facility and the relocation of administrative offices, which includes leasing and renovations of two facilities and the acquisition of machinery and equipment.

ESD Incentive Offer Accepted: January 24, 2006 (Initial Offer)
April 27, 2009 (Revised Offer)

Project Completion: May 2007

Number of Employees at Project Location:
Initial employment (at time of ESD Incentive Offer): 85
Current employment level: 88
Minimum employment through January 1, 2013: 85

Grantee Contact: Rita A. Klepitch, State Tax Manager
525 W. Van Buren St.
Chicago, IL 60607-3835
Phone: (312) 544-7140
Fax: (312) 544-7071

Beneficiary Contact: same

Anticipated
Appropriation
Source: Empire State Economic Development Fund

ESD Project No.: T847

Project Team:	Origination	Paul Taxter
	Project Management	Gregory E. Fitzgerald
	Affirmative Action	Denise Ross
	Finance	Yang Song
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Leasehold improvements	\$2,000,000
Machinery and equipment	1,100,000
Relocation expenses	1,000,000
Contingency	<u>305,000</u>
Total Project Costs	<u>\$4,405,000</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$ 292,300	7%
Landlord concession	1,600,000	36%
Company Equity	<u>2,512,700</u>	<u>57%</u>
Total Project Financing	<u>\$4,405,000</u>	<u>100%</u>

III. Project Description

A. Background

Incorporated in Delaware in 1999, Akzo Nobel Surface Chemistry LLC is a manufacturer of specialty chemicals. The Company's parent company is the Chicago, IL-based Akzo Nobel Chemicals Inc., which is wholly-owned by Akzo Nobel Inc., which is wholly owned by the Amsterdam, Netherlands-based Akzo Nobel N.V. Incorporated in 1969, Akzo Nobel N.V. has a history of growth through acquisition. The specialty chemical business was established in the United States through the acquisitions of the former Amour chemical division from Greyhound in 1970 and Stauffer Chemical's specialty chemical business in 1987. ANSC operates five plants in the United States located in Morris, IL, Salisbury, NC, Chattanooga, TN, Fort Worth, TX, and Houston, TX. It also had a research and development facility in Dobbs Ferry, NY. In addition to the Company, three other wholly-owned subsidiaries of Akzo Nobel Inc. were located at the former Dobbs Ferry facility: Akzo Nobel Functional Chemicals LLC, Akzo Nobel Services Inc. and Eka Chemicals. Each subsidiary is also a Beneficiary Company of the project.

ANSC specializes in a class of chemicals called surfactants. Surfactants change the surface of materials when mixed with water or other chemicals and are used in laundry products, motor oil and personal care products. The Company has consistently ranked either number one or two in the global surfactants industry for several years, and many of ANSC's major customers are listed on the Fortune 500.

In 2005, the Company determined that the costs to renovate and upgrade its outdated facility in Dobbs Ferry were excessive and began a search for new office space and a research and development facility to meet the world market demand for "greener" surfactants. An objective analysis of available space was made, and locations in Brewster, NY and Danbury, CT were given serious consideration. In October of 2005, it held meetings with the State of Connecticut Department of Economic and Community Development and ESD to discuss possible incentives. The Company received incentive proposals from both states. The comprehensive ESD incentive package (along with its statutory research and development sales and use tax exemption, no personal property tax, reduced real estate tax, and reduced utility cost) convinced the Company to remain in New York. ESD's incentive offer was initially accepted on January 2006. As a result of a reduction of total project costs, a revised incentive was issued on April 20, 2009, and accepted on April 27, 2009. The revised incentive identified a location in Brewster for the Company's research and development facility and a site in Tarrytown for its legal and business administrative functions. As a result of the incentive, the Company relocated operations to two new locations, retaining 85 jobs through January 1, 2013.

B. The Project

The Company executed a 15-year lease with multiple renewal options for approximately 66,000 square feet of space in Brewster, NY. The space was configured to provide 36,000 square feet of office space, 20,000 square feet of laboratory space and 10,000 square feet of laboratory support space. In addition, the Company entered into a six-year sublease with a renewal option for approximately 16,609 square feet of office space in Tarrytown, NY. Each project site required extensive leasehold improvements, the acquisition and installation of machinery and equipment and relocation expenses. The Company relocated to the new locations in June 2007. The project originally included the demolition of the former pilot plant facility located at 1 Lawrence Avenue, Ardsley, NY. However, the Company withdrew that portion of the project due to unforeseen delays. As a result, a revised ESDC incentive offer was made to the Company on April 20, 2009, and accepted on April 27, 2009. Total project cost incurred to date are \$4,405,000.

As a result of the project, the Company and its affiliates will remain in New York State and 85 existing jobs will be retained through January 1, 2013. The Companies currently have 88 employees at the project locations.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$292,300 capital grant (\$2,923) upon execution of the grant disbursement agreement. In addition, at the time of disbursement, the Company will reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will demonstrate no material adverse change in its financial condition prior to disbursement.
3. In lieu of certain financial disclosure requirements, the Grantee shall provide a surety bond that shall remain in place for the entire period of the Grant Disbursement Agreement under the following terms, which have been approved by ESD's Legal department:
 - Principal: Akzo Nobel Surface Chemistry LLC
 - Provider: Chubb Group of Insurance Companies
 - Obligee: ESD
 - Amount: \$292,300
4. The Company or the Company's shareholders will contribute at least 10% in equity to the Project. Equity is defined as any non-debt source of capital, and should be auditable through Company financial statements or Company accounts, if so requested by ESD.
5. Prior to disbursement, the Company must employ at least the number of Full-time Permanent Employees set forth as the Baseline Employment in the table below. A Full-time Permanent Employee shall mean (a) a full-time, permanent, private-sector employee on the Grantee's payroll, who has worked at the Project Location for a minimum of thirty-five hours per week for not less than four consecutive weeks and who is entitled to receive

the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties; or (b) two part-time, permanent, private-sector employees on Grantee's payroll, who have worked at the Project Location for a combined minimum of thirty-five hours per week for not less than four consecutive weeks and who are entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties.

6. Up to \$292,300 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$146,300) will be disbursed upon documentation of real estate, relocation and machinery and equipment project costs totaling \$4,405,000 and documentation of the employment of at least 85 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available;
 - b) a Second Disbursement of 50% of an amount equal to the grant (\$146,000) will be disbursed no sooner than 12 months after the date the Initial Disbursement was made, upon documentation of the employment of at least 85 Full-time Permanent Employees at the Project Location, provided Grantee is otherwise in compliance with program requirements.

Payment will be made upon presentation to ESDC of an invoice and such other documentation as ESDC may reasonably require. Expenses must be incurred on or after January 24, 2006, to be considered eligible project costs.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$292,300 for this project if ESD determines that the reallocation of the assistance would better serve the needs of the Company and the State of New York. In no event shall the total amount of any assistance to be so reallocated exceed the total amount of assistance approved by the Directors.
8. In consideration for the Grant, Grantee will achieve the Employment Goals set forth in Column B of the table below. If the Full-time Permanent Employee Count for the year prior to the reporting date set forth in Column A of the table below is less than eighty-five percent (85%) of the Employment Goal set forth in Column B (an "Employment Shortfall"), then upon demand by ESD, Grantee shall be obligated to repay to ESD a portion of each disbursement of the Grant, as follows:

The Recapture Amount is based on the time that has lapsed between when the Grant funds were disbursed and when the Employment Shortfall occurred. The Recapture Amount shall be calculated by aggregating the Recapture Amount for each disbursement of the Grant, which in each instance shall be equal to:

- (i) 100% of the disbursed amount if the Employment Shortfall occurred in the calendar year that the disbursement was made, or in the first full calendar year after the disbursement was made;
- (ii) 80% of the disbursed amount if the Employment Shortfall occurred in the second full calendar year after the disbursement was made;

- (iii) 60% of the disbursed amount if the Employment Shortfall occurred in the third full calendar year after the disbursement was made;
- (iv) 40% of the disbursed amount if the Employment Shortfall occurred in the fourth full calendar year after the disbursement was made;
- (v) 20% of the disbursed amount if the Employment Shortfall occurred in the fifth full calendar year after the disbursement was made.

The Grantee’s number of Full-time Permanent Employees shall be deemed to be the greater of the number as of the last payroll date in the month of December for such year or the average employment for the 12 month period computed by quarter.

Baseline Employment	85
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A	B
Date	Employment Goals
February 1, 2010	85
February 1, 2011	85
February 1, 2012	85
February 1, 2013	85
February 1, 2014	85

IV. Statutory Basis

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of family farms.
As a result of this project, the Company will maintain its employment level of 85, including retention of 85 jobs which were at risk of relocation to another state.
2. The proposed project would be unlikely to take place in New York State without the requested assistance.
The Company considered relocating its operations to Danbury, Connecticut. ESD’s assistance helped to reduce costs and make the project feasible in New York.
3. The project is reasonably likely to accomplish its stated objectives and the likely benefits of the project exceed costs.

Evaluated over a seven-year period, the following are anticipated project impacts (dollar values are present value):

- Fiscal benefits to NYS government from the project are estimated at \$3,309,257;
- Fiscal cost to NYS government is estimated at \$292,300;
- Project cost to NYS government per direct job is \$7,519;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$5,103;
- Ratio of project fiscal benefits to costs to NYS government is 11.32:1;

- Fiscal benefits to all governments (state and local) are estimated at \$5,734,227;
- Fiscal cost to all governments is \$292,300;
- All government cost per direct job is \$7,519;
- All government cost per total job is \$5,103;
- The fiscal benefit to cost ratio for all governments is 19.62:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$38,261,351, or \$667,912 per job (direct and indirect);
- The economic benefit to cost ratio is 130.90:1;
- Project construction cost is \$2,305,000 which is expected to generate 18 direct job years and 9 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 1.48 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 1 year.

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

4. The requirements of Section 10(g) of the Act are satisfied.
 No residential relocation is required because there are no families or individuals residing on the site.

V. Environmental Review

ESD staff has determined that the project constitutes a Type II action as defined by the New York State Environmental Quality Review Act ("SEQRA") and the implementing regulations of the New York State Department of Environmental Conservation. No further environmental review is required in connection with the project.

VI. Affirmative Action

ESD's Non-Discrimination and Affirmative Action policy will apply. The Company is encouraged to include minorities and women in any job opportunities created by the project and to solicit and utilize Minority and Women-owned Business Enterprises for any contractual opportunities generated in connection with the project.

VII. ESD Financial Assistance Subject to Availability of Funds and Additional Approval

The provision of ESD financial assistance is contingent upon the availability of funds and the approval of the State Division of the Budget.

VIII. Additional Submissions to Directors

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

August 19, 2009

Brewster (Putnam County) and Tarrytown (Westchester County) – Akzo Nobel Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions

RESOLVED, that on the basis of the materials presented to this meeting, a copy of which is hereby ordered filed with the records of the Corporation, relating to the Akzo Nobel Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) Project (the “Project”), the Corporation hereby determines pursuant to Sections 16-m and 10 (g) of the New York State Urban Development Corporation Act of 1968, as amended (the “Act”), that

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of family farms;
2. The project would be unlikely to take place in New York State without the requested assistance;
3. The project is reasonably likely to accomplish its stated objectives and that the likely benefits of the project exceed costs;
4. There are no families or individuals to be displaced from the project area; and be it further

RESOLVED, that the Corporation does hereby adopt, subject to the requirements of Section 16(2) of the Act, the proposed General Project Plan (the “Plan”) for the Project submitted to this meeting, together with such changes therein as the Chairman and Chief Executive Officer - Designate of the Corporation or his designee(s) may deem appropriate, a copy of which Plan, together with such changes, is hereby ordered filed with the records of the Corporation; and be it further

RESOLVED, that upon written finding of the Chairman and Chief Executive Officer - Designate of the Corporation or his designee(s) that no substantive negative testimony or comment has been received at the public hearing held on the Plan, such Plan shall be effective at the conclusion of such hearing, and that upon such written finding being made, the Chairman and Chief Executive Officer - Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Akzo Nobel Surface Chemistry LLC a grant for a total amount not to exceed Two Hundred Ninety Two Thousand Three Hundred Dollars (\$292,300) from the Empire State Economic Development Fund, for the purposes, and substantially on the terms and conditions, set forth in the materials presented to this meeting, with such changes as the Chairman and Chief Executive Officer - Designate of the Corporation or his designee(s) may deem appropriate, subject to the availability of funds and the approval of the State Division of the Budget; and be it further

RESOLVED, that the Chairman and Chief Executive Officer - Designate of the Corporation or his designee(s) be, subsequent to the making of the grant, and each of them hereby is, authorized to take such actions and make such modifications to the terms of the grant as he or she may deem necessary or appropriate in the administration of the grant; and be it further

RESOLVED, that the provision of ESD financial assistance is expressly contingent upon: (1) the approval of the Public Authorities Control Board, if applicable, and (2) receipt of all other necessary approvals; and be it further

RESOLVED, that the Chairman and Chief Executive Officer - Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized in the name and on behalf of the Corporation to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider to be necessary or proper to effectuate the foregoing resolutions.

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August 19, 2009

Brewster (Putnam County) and Tarrytown (Westchester County) – Akzo Nobel Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – Determination of No Significant Effect on the Environment

RESOLVED, that based on the material submitted to the Directors with respect to the Akzo Nobel Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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