

FOR CONSIDERATION

June 24, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Solvay (Onondaga County) – Crucible Industries Working Capital – Empire State Economic Development Fund – General Development Financing (Working Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Make a Grant and to Take Related Actions

I. Project Summary

Grantee: Crucible Industries LLC

ESD* Investment: A grant of up to \$1,500,000 to be used for a portion of energy costs.

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

Project Location: 575 State Fair Boulevard, Solvay, Onondaga

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

Proposed Project: The ESD grant will assist in subsidizing energy costs at the Crucible Specialty Metals plant in Onondaga County. The energy assistance grant was part of a \$9.5 million ESD financing offer associated with the purchase of the Solvay plant by a newly formed company, Crucible Industries LLC.

ESD Incentive Offer Accepted: October 7, 2009

Project Completion: December 2011

Number of Employees at Project Location:

Initial employment (at time of ESD Incentive Offer):	120 *
Current employment level:	278
Minimum employment on January 1, 2011:	170

* Employees of Crucible Materials Corporation at the Specialty Metals Division in Solvay to be retained by Crucible Industries LLC.

Grantee Contact: William Lester, CFO
575 State Fair Boulevard
Solvay, NY 13209
Phone: 315-487-4111
Fax: 315-484-9014

Anticipated
Appropriation
Source: Empire State Economic Development Fund ("EDF")

ESD Project No.: W903

Project Team:	Origination	James Fayle
	Project Management	Meg Paskins
	Finance	Ross Freeman
	Affirmative Action	Helen Daniels
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Estimated Energy Costs (2010)	\$10,526,712
Estimated Energy Costs (2011)	<u>11,503,375</u>

Total Project Costs \$22,030,087

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD - Grant *	\$ 1,500,000	.7%
Company Equity	<u>20,530,087</u>	<u>99.3%</u>

Total Project Finance \$22,030,087 100.0%

* \$1 million to be disbursed in 2010 and \$500,000 to be disbursed in 2011 upon documentation of energy usage and attainment of employment goals.

III. Project Description

A. Background

Crucible Specialty Metals, a division of Crucible Materials Corporation (“Crucible”), had been a manufacturer of specialty steel products located in Central New York (“CNY”) for over 130 years. During that time, the CNY plant, located on 70 acres with a total square footage of over 1 million square feet, employed hundreds of workers including members of the United Steelworkers of America. Crucible’s other divisions included its compaction metals division in Oakdale, Pennsylvania; research division in Pittsburgh, Pennsylvania; and its service center division with 12 locations.

During the fourth quarter of 2008 and continuing into 2009, sales levels took a significant decline especially in the automotive and aerospace market segments. Sales declines rapidly approached 40% compared to prior periods, putting significant liquidity pressure on Crucible. In the current financial market, access to further credit and liquidity were not available and on May 6, 2009, Crucible filed for Chapter 11 bankruptcy protection. Manufacturing operations began to be phased out and shut down and the creditors began liquidation.

In late September 2009, the US Bankruptcy Court judge approved the breakup of Crucible, approving the sales of its assets to companies in Pennsylvania and Ohio. Crucible’s compaction metals facility and research divisions were approved for sale to Allegheny Technologies Inc. in Pittsburgh for \$40.9 million. The Crucible Specialty Metals plant in Solway, New York was approved for sale to Crucible Industries LLC (“Crucible Industries” or the “Company”) for \$8 million and the sale took place on October 23, 2009. Crucible Industries is a new company formed by Jack Jankovic, head of JP Industries Inc., a private investment group based in Cleveland, Ohio.

The owners of Crucible Industries have past experience in operating similar manufacturing facilities throughout the US and their intent was to re-start the CNY steel plant’s manufacturing operation. A minimum of 120 workers would be brought back initially, with an expected increase of 50 additional jobs in 2010, bringing employment to at least 170 by January 2011. The United Steel Workers approved a collective bargaining agreement on October 9, 2009 with the new owners and production resumed on November 16, 2009.

The expected cost to recapitalize the operation was approximately \$24.65 million. Crucible Industries provided equity capital of \$8 million to support equipment improvements, capital expenditures and general working capital needs. It also secured a \$13 million revolving line of credit with Key Bank NA; however, the borrowing base initially secured approximately \$7.15 million of available liquidity, which left a financing gap of \$9.5 million.

In an effort to assist Crucible Industries with continuing the Solway plant’s operations and preserving employment, ESD made an offer of up to \$9.5 million in assistance to Crucible Industries, which was accepted on October 7, 2009. The offer consisted of up to \$8 million in loans and a \$1.5 million working capital grant. The \$8 million in loans, to be used for asset acquisition costs, were comprised of a \$2.67 million working capital loan from the Upstate Regional Blueprint Fund (W894), approved by the ESD Directors at their October 22, 2009 meeting and funded in

February 2010; and a \$5.33 working capital loan from EDF (W923), approved by the ESD Directors at their November 18, 2009 meeting and funded in December 2009. The \$1.5 million EDF working capital grant, the subject of these materials, will offset energy costs over the first two years of operation. The Company is current on all loan repayments and has far exceeded its job commitments with 278 current employees

The Directors have been provided with a confidential finance memo for this project.

B. The Project

The \$1.5 million working capital grant will be used to offset energy costs over a two year period. Energy costs for electricity and natural gas are forecasted to be \$10.5 million for 2010 and \$11.5 million for 2011. Historical annual averages for energy costs during the period 2006-2008 were \$16.8 million, primarily due to higher natural gas costs during that period which were at \$8-\$11/dth (decatherm – which signifies volume of natural gas purchased/utilized) for significant parts of those years. Lower costs are projected as the Company is forecasting to produce fewer tons than prior years as it is moving away from its valve steel business which was high volume with lower profit margins and a reduction in natural gas costs forecasted to remain near the current range of \$4-\$6/dth. Employment at the Solvay play has reached 278 which exceeds projected job goals.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$1,500,000 working capital grant (\$1,500) upon execution of the grant disbursement agreement.
2. The Company will demonstrate no material adverse change in its financial condition prior to disbursement
3. The Company or the Company's owners will contribute at least 10% in equity to the Project. Equity is defined as any non-debt source of capital, and should be auditable through Company financial statements or Company accounts, if so requested by ESD.
4. Prior to disbursement, the Company must employ at least the number of Full-time Permanent Employees set forth as the Baseline Employment in the table below. A Full-time Permanent Employee shall mean (a) a full-time, permanent, private-sector employee on the Grantee's payroll, who has worked at the Project Location for a minimum of thirty-five hours per week for not less than four consecutive weeks and who is entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties; or (b) two part-time, permanent, private-sector employees on Grantee's payroll, who have worked at the Project Location for a combined minimum of thirty-five hours per week for not less than four consecutive weeks and who are entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties.

5. Up to \$1,500,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of \$1,000,000 will be disbursed upon documentation of \$1,100,000 in energy usage costs during 2010, and employment of at least 120 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 \$500,000 will be disbursed upon documentation of energy \$550,000 in energy usage costs during 2011, and employment of at least 170 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 September 16, 2009 to be considered eligible project costs. All disbursements must be requested by April 1, 2013.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$1,500,000, for this project if ESD determines that the reallocation of the assistance would better serve the needs of the Company and the State of New York. In no event shall the total amount of any assistance to be so reallocated exceed the total amount of assistance approved by the Directors.
7. In consideration for the making of the Grant, Grantee will achieve the Employment Goals set forth in Column B of the table below. If the Full-time Permanent Employee Count for the year prior to the reporting date set forth in Column A of the table below is less than eighty-five percent (85%) of the Employment Goal set forth in Column B (an "Employment Shortfall"), then upon demand by ESD, Grantee shall be obligated to repay to ESD a portion of each disbursement of the Grant, as follows:

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

- (i) 100% of the disbursed amount if the Employment Shortfall occurred in the calendar year that the disbursement was made, or in the first full calendar year after the disbursement was made;
- (ii) 80% of the disbursed amount if the Employment Shortfall occurred in the second full calendar year after the disbursement was made;
- (iii) 60% of the disbursed amount if the Employment Shortfall occurred in the third full calendar year after the disbursement was made;
- (iv) 40% of the disbursed amount if the Employment Shortfall occurred in the fourth full calendar year after the disbursement was made;
- (v) 20% of the disbursed amount if the Employment Shortfall occurred in the fifth full calendar year after the disbursement was made.

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

Baseline Employment		120
A	B	
Date	Employment Goals	
February 1, 2011	170	
February 1, 2012	170	
February 1, 2013	170	

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, Crucible Industries will re-start the steel plant’s operation which was shut down due to bankruptcy proceedings. The Company will bring back 120 jobs initially. In addition, Crucible Industries will create 50 new jobs.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.
Without ESD assistance, this project could not have taken place as a significant funding gap would have prevented Crucible Industries from acquiring the Solvay plant.

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 \$15,660,219;
 - Fiscal cost to NYS government is estimated at \$9,446,735;
 - Project cost to NYS government per direct job is \$74,804;
 - Project cost to NYS government per job (direct plus indirect) is estimated at \$28,719;
 - Ratio of project fiscal benefits to costs to NYS government is 1.66:1;
 - Fiscal benefits to all governments (state and local) are estimated at \$21,201,041;
 - Fiscal cost to all governments is \$9,446,735;
 - All government cost per direct job is \$74,804;
 - All government cost per total job is \$28,719;
 - The fiscal benefit to cost ratio for all governments is 2.24:1;
 - Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$80,564,789, or \$244,921 per job (direct and indirect);
 - The economic benefit to cost ratio is 8.53:1;
 - There is no construction activity related to this project;

- For every permanent direct job generated by this project, an additional 1.61 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 3 years.

(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. Crucible Industries LLC 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

Resolution
New York State Map
Confidential Project Finance Memorandum
Cost-Benefit Analysis

June 24, 2010

Solvay (Onondaga County) – Crucible Industries Working Capital – Empire State Economic Development Fund - General Development Financing (Working Capital Grant) – Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; 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 Crucible Industries Working Capital – Empire State Economic Development Fund - General Development Financing (Working 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 Chairman and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Crucible Industries LLC a grant for a total amount not to exceed One Million Five Hundred Thousand Dollars (\$1,500,000) from the Empire State Economic Development Fund, for the purposes, and substantially on the terms and conditions, set forth in the materials presented to this meeting, with such changes as the Chairman and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, subject to the availability of funds and the approval of the State Division of the Budget; and be it further

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

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

RESOLVED, that the Chairman and Chief Executive Officer 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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