

FOR CONSIDERATION

November 19, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Massena (St. Lawrence County) – Curran Renewable Energy 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: Curran Renewable Energy, LLC (“Curran” or the “Company”)

ESD* Investment: A grant of up to \$250,000 to be used for a portion of the cost of the purchase of machinery and equipment.

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

Project Location: 16 & 20 Commerce Drive, Massena, St. Lawrence County

NYS Empire Zone
(or equivalent): N/A

Proposed Project: Purchase and renovate buildings and purchase machinery and equipment to establish a wood pellet manufacturing facility.

Project Completion: July 2009

ESD Incentive Offer Accepted: March 2, 2007 (initial offer); December 27, 2007 (revised offer)

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer: 50*
 Current employment level: 97*
 Minimum employment on January 1, 2012: 100*
**Retained 50 jobs at Seaway Timber Harvesting, Inc.*

Grantee Contact: Patrick Curran, President
 20 Commerce Dr.
 Massena, New York 13662
 Phone: (315)-769-2000
 Fax: (315)-769-2001

Anticipated
 Appropriation
 Source:

Empire State Economic Development Fund

ESD Project No.: V129

Project Team:	Origination/Project Manager	Ron Stanton
	Affirmative Action	Laverne Poole
	Finance	Amit Nihalani
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Land & improvements	\$830,000
Machinery and equipment	6,385,000
Buildings and improvements	2,278,000
Start-up and working capital	<u>1,457,000</u>

Total Project Costs \$10,950,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$250,000	2%	
SLC-IDA, Tax exempt revenue bonds*	8,000,000	73%	7%/20 yrs/first lien on Assets
SPEC loan	1,000,000	9%	7%/7 yrs/ 2nd lien on Assets
GMEDF**	200,000	2%	3.5%/10yrs/co-3 rd lien on Assets
SLC-IDA loan*	400,000	4%	3.5%/10yrs/co-3 rd lien on Assets
Company Equity	<u>1,100,000</u>	<u>10%</u>	

Total Project Financing \$10,950,000 100%

*St. Lawrence County Industrial Development Fund

**Greater Massena Economic Development Fund

III. Project Description

A. Background

Located in the heart of the timber manufacturing industry in northern New York, Curran was formed in 2007 by Patrick, Timothy and Lee Curran (the “Curran Brothers”) to take advantage of the economic opportunities in the renewable energy business. Together they have over 50 years of experience in the timber business. The Company will produce carbon neutral wood pellets, a majority of which will be certified by the Forest Stewardship Council.

The Curran Brothers own and operate two longstanding businesses, Seaway Timber Harvesting, Inc. (“Seaway”), which annually produces over 300,000 green tons of wood chips, and Curran Logging, Inc. (“Curran Logging”), which produces and sells soils and gravel in all sizes. Together, Seaway and Curran Logging employ over 80 people, have annual sales in excess of \$20 million, and are one of the larger for-profit businesses in St. Lawrence County.

Seaway’s primary business is processing and delivering wood chips to pulp and paper mills throughout the North East and Canada. In 2005, Domtar, Inc. (the “Mill”), a Canadian owned paper manufacturer, closed its Mill in Cornwall, Ontario Canada. The Mill was within 20 miles of Seaway’s operation in Massena and comprised 50% of its business. In order to maintain the same level of operations, Seaway’s delivery area was expanded out to 150 miles. Delivery cost and the weak condition of many of its customers in Canada continue to deteriorate Seaway’s daily operations and workforce. Concerned over the severity of the recession and downward trend in its business, the Curran Brothers began to look for new markets and opportunities. The Company was formed to provide Seaway with a new customer in close proximity so that it would not be negatively impacted by rising fuel cost. The Company is expected to purchase approximately 170,000 tons of premium grade wood chips each year. Seaway will be the major supplier with local loggers providing tree length logs that Seaway will chip. This volume of wood chips should supplement much of the lost business caused by the decline of the paper industry in Canada. Pellets will generally be shipped in bulk for industrial applications and bagged for residential and other uses, with an estimated 50% of plant production going to NY retail establishments such as Home Depot and Agway.

The market for wood pellets is very good. Over the past several years the popularity and low supply has driven the retail price of wood pellets up to over \$300 per ton. Realizing the market potential for wood pellets and the benefit such a plant would have on its sister plant, the Curran Brothers decided to move forward with a plan to build a pellet plant. Due to high project costs and lack of financing and the potential to create new jobs at Curran and strengthen operations at Seaway, ESD, in an incentive dated March 14, 2007, offered the Company a \$250,000 to create 25 jobs at Curran and retain 90 jobs at its sister plant, Seaway. Based on changes in market demand for both companies, the incentive was subsequently revised on December 21, 2007 to reflect the creation of 50 jobs at Curran and retention of 50 jobs at Seaway. ESD assistance was necessary to lower costs and makes the project feasible in New York.

B. The Project

The Company has acquired two buildings totaling 44,000 square feet on approximately eight acres of developed land in the Massena Industrial Park to house the manufacturing, warehousing and distribution space. The buildings will undergo numerous upgrades which will create a state-of-the-art, efficient, premium grade pellet manufacturing facility. The main production equipment includes a wood chip dryer, three pellet mills and a packaging line. Once fully operational, Curran will be equipped to produce 100,000 tons of wood pellets fuel per year, making it one of the largest wood pellet manufacturing facilities in the United States. The Company recently completed testing the equipment installed and is rapidly gearing up to full production. As a result of the project, the Company will manufacture a renewable energy source and create jobs in an area of New York that has recently seen significant job losses at both GM and Alcoa.

Since starting operations the Company has found the market to be extremely strong. The general belief and reason for its growing popularity is that burning wood pellets is carbon neutral. The environmental benefit is that the carbon dioxide (“CO2”) emitted into the air when burning the wood pellet is offset by the fact that wood pellets are made from trees and trees absorb CO2 as they grow. It is estimated that the two offset each other making wood pellets environmentally friendly. In fall 2009, Curran was expected to hire an additional nine employees and increase production to 24/7.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$250,000 capital grant (\$2,500) 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. Seaway Timber Harvesting, Inc. will guarantee the grant repayment obligation of its subsidiary, Curran Renewable Energy, LLC, in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. 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.
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 \$250,000 will be disbursed to Grantee in three installments as follows:
 - a. an Initial Disbursement of an amount equal to 50% of the grant (\$125,000) upon documentation of machinery and equipment project costs totaling \$6,000,000, completion of the project substantially as described in these materials, and documentation of at least 50 Full-time Permanent Employees at Seaway and documentation of at least 25 Full-time Permanent Employees at Curran (Employment Increment of 25), assuming that all project approvals have been completed and funds are available;
 - b. Second Disbursement of an amount equal to 25% of the grant (\$62,500) upon documentation of employment of at least 50 Full-time Permanent Employees at Seaway and documentation of 37 Full-time Permanent Employees at Curran (Employment Increment of 12), assuming that all project approvals have been completed and funds are available.
 - c. Third Disbursement of an amount equal to 25% of the grant (\$62,500) upon documentation of employment of at least 50 Full-time Permanent Employees at Seaway and documentation of 50 Full-time Permanent Employees at Curran (Employment Increment of 13), assuming that all project approvals have been completed and funds are available.

Payment will be made upon presentation to ESDC of an invoice and such other documentation as ESDC may reasonable require. Only expenditures incurred on or after December 27, 2007 may be considered eligible project costs. Disbursements may occur simultaneously. All disbursements must be requested by April 1, 2012.

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

- (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	50*
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A	B
Reporting Date	Employment Goals
February 1, 2011	$50^*+X+Y+Z$
February 1, 2012	$50^*+X+Y+Z$
February 1, 2013	$50^*+X+Y+Z$
February 1, 2014	$50^*+X+Y+Z$

*Retained at Seaway Timber Harvesting, Inc.

X = Grantee's Employment Increment that will be the basis of the First Disbursement of the Grant as described in Section 6 above (i.e. X=25 and Employment Goals shall equal $[50 + X = 75]$ if the First Disbursement is made, in the year such disbursement is made and for each year thereafter). If the First Disbursement has not yet been made then X=0.

Y = Grantee’s Employment Increment that will be the basis of the Second Disbursement of the Grant as described in Section 6 above (i.e. Y=12, and Employment Goals shall equal $[50 + X + Y = 87]$ if the Second Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Second Disbursement has not yet been made then Y=0.

Z = Grantee’s Employment Increment that will be the basis of the Third Disbursement of the Grant as described in Section 6 above (i.e. Z=13, and Employment Goals shall equal $[50 + X + Y + Z = 100]$ if the Third Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Third Disbursement has not yet been made then Z=0.

IV. Statutory Basis

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 50 at Seaway and create 50 new jobs at Curran.
2. The proposed project would be unlikely to take place in New York State without the requested assistance.
Without ESD assistance the cost would have been too high to 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 \$3,378,542;
- Fiscal cost to NYS government is estimated at \$465,637;
- Project cost to NYS government per direct job is \$5,740;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$4,192;
- Ratio of project fiscal benefits to costs to NYS government is 7.26:1;
- Fiscal benefits to all governments (state and local) are estimated at \$5,667,889;
- Fiscal cost to all governments is \$465,637;
- All government cost per direct job is \$5,740;
- All government cost per total job is \$4,192;
- The fiscal benefit to cost ratio for all governments is 12.17:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$33,653,897, or \$302,967 per job (direct and indirect);
- The economic benefit to cost ratio is 72.28:1;
- Project construction cost is \$2,278,000 which is expected to generate 29 direct job years and 12 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.37 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 1 year.

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

4. The requirements of Section 10(g) of the Act are satisfied.

No residential relocation is required because there are no families or individuals residing on the site.

V. Environmental Review

The St. Lawrence County Industrial Development Agency, as lead agency, has completed an environmental review of the proposed project, pursuant to the requirements of the State Environmental Quality Review Act ("SEQRA") and the implementing regulations of the New York State Department of Environmental Conservation. This review found the project would not have a significant effect on the environment. ESD staff reviewed the supporting materials and concurs. It is recommended that the Directors make a Determination of No Significant Effect on the Environment.

VI. Affirmative Action

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

VII. 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

November 19, 2009

Massena (St. Lawrence County) – Curran Renewable Energy 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 Curran Renewable Energy Capital – Empire State Economic Development Fund (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, Chairman and Chief Executive Officer-Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Curran Renewable Energy, LLC a grant for a total amount not to exceed Two Hundred Fifty Thousand Dollars (\$250,000) 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-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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November 19, 2009

Massena (St. Lawrence County) – Curran Renewable Energy 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 Curran Renewable Energy Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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