

FOR CONSIDERATION

October 22, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Fort Edward (Washington County) – Irving Tissue MAP 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

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General Project Plan

I. Project Summary

Grantee: Irving Tissue, Inc. (“Irving Tissue” or the “Company”)

ESD\* Investment: A grant of up to \$600,000 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: 1 Eddy Street, Fort Edward, Washington County

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

Proposed Project: The demolition of buildings, construction of a new 106,000-square-foot building and the acquisition of machinery and equipment to modernize and expand operations.

ESD Incentive Offer Accepted: November 9, 2007

Project Completion: November 2008

Number of Employees at Project Location:

Initial employment (at time of ESD Incentive Offer): 277

Current employment level: 293

Minimum employment through January 1, 2013: 278

Grantee Contact: Bill Hart, Financial Services Manager  
1 Eddy Street  
Fort Edward, NY 12828  
Phone: (518) 747-4151 Ext. 2371  
Fax: (518) 747-2706

Anticipated  
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: V918

Project Team:	Origination	Arnold Will
	Project Management	Brendan Healey
	Affirmative Action	Laverne Poole
	Finance	Ross Freeman
	Environmental	Soo Kang

## II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Machinery & Equipment	\$14,895,000
Infrastructure	5,581,000
Building	11,447,000
Engineering	671,000
Project management	497,000
Geotechnical	60,000
Contingency	<u>1,507,000</u>

Total Project Costs \$34,658,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$600,000	2%
Company Equity	<u>34,058,000</u>	<u>98%</u>
Total Project Financing	<u>\$34,658,000</u>	<u>100.0%</u>

### III. Project Description

#### A. Background

Irving Tissue is a privately-held company that produces premium quality tissue and towel products for distribution throughout the United States and Canada. These products are sold under branded labels through partnerships with companies such as Wal Mart, BJ's, Family Dollar, Wegman's, Kroger, and Demoula's Market Basket. Irving Tissue is Washington County's second largest employer and is the only U.S. located plant of the Canadian-based parent company, Irving Tissue Corporation, which also has facilities in Toronto, Ontario and Dieppe, New Brunswick. Its significant competitors include Kimberly Clark, Proctor & Gamble, and Georgia Pacific. These competitors are giants in this field with dominant market shares.

Manufacturing is the most significant wealth-creating and value-adding sector of the NYS economy outside of the New York City metropolitan area. The purpose of the ESDC's Manufacturing Assistance Program ("MAP") is to encourage New York State manufacturers to invest in projects that substantially improve the competitiveness and productivity of their operations, thus increasing their long-term viability and ensuring the health of the state's manufacturing economy.

The facial and bath tissue business is highly competitive and Irving Tissue must expand production and improve quality control issues to remain competitive. In order to achieve this, it was necessary to acquire a Facial Folder machine, which converts parent rolls of tissue into the finished product of facial tissues at a fast speed while reducing waste. In addition to increasing efficiency and capacity at its Fort Edward facility, the Facial Folder also eliminated the need for outside contracted manufacturing and reduced the Company's sister plant capacity requirements. If the Company did not undertake this project, the long-term viability of the Fort Edward's facility would have been weakened.

Irving Tissue Corporation was faced with three options of where to install a Facial Folder: Fort Edward, Toronto, or Dieppe. The Toronto facility had lower fuel costs, and would have only required construction of a smaller building to house the Facial Folder. The Dieppe facility had lower fuel costs and would not have had demolition costs. The Company met with ESD in order to identify ways to reduce the cost of the project to make the Fort Edward facility an attractive alternative to the Canadian facilities. In order to induce the Company to proceed with the project in New York State, ESD offered a \$600,000 MAP Capital grant to assist with the cost of the Facial Folder project at Fort Edward. The Company accepted the offer in November 2007. Without ESD's assistance, the long-term viability of this facility would have been weakened and twenty jobs could have been relocated to Canada.

It should be noted that the Company has requested that its financial information not be shared with the Directors, which is an exception to ESD policy, as the Company believes that its business would be at risk if such information were disclosed. At the time the ESD Incentive Offer was negotiated, ESD agreed to this request provided that ESD's Project Finance team had the opportunity to review the Company's financials in order to determine that the Company was in

reasonable financial condition. ESD's Project Finance team has reviewed the Company's financials and has determined that the Company is in reasonable financial condition.

B. The Project

The project involved the construction of a new, state-of-the-art 106,000-square-foot building and the acquisition and installation of a Facial Folder. In addition, 14 existing buildings totaling approximately 123,000 square feet were demolished, a boiler was replaced, and utilities were relocated. The new building was strategically placed in the center of the existing plant site. The building connects the current papermaking section located in the back of the plant to the newest converting buildings in the front of the plant. This layout provides flow of material: raw materials enter the back of the plant to be processed and finished goods leave from the front of the facility.

The project was completed in September 2008 and the facility was fully operational in November 2008. Installation of the Facial Folder has had three major impacts on Irving Tissue's business: improved quality, increased capacity, and lower costs.

C. MAP Project Findings and Outcomes

This project qualifies as a Manufacturing Assistance Program project because the Company i) is a resident New York State manufacturer with between 50 and 1,000 employees; ii) exports at least 30% of its production beyond its region or provides at least 30% of its production to a manufacturer that exports beyond the Company's region; and iii) is making a substantial investment of at least \$1,000,000 in order to improve its competitiveness and productivity and thereby enhance its long-term viability in the State of New York.

The project is expected to produce the following measurable outcomes for the Company:

Primary Outcome(s): 50% increase in output, from 3.3 million facial cases per year to 4.9 million facial cases per year.

Secondary Outcome(s): Reduction in waste.

D. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$600,000 capital grant (\$6,000) 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. Irving Tissue Corporation will guarantee the grant repayment obligation of its subsidiary, Irving Tissue, Inc., 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 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 \$600,000 will be disbursed to the Grantee in two installments as follows:
  - a) an Initial Disbursement of an amount equal to 50% of the grant (\$300,000) will be disbursed upon documentation of the construction of the 106,000-square-foot facility, the purchase and installation of a Facial Folder converting line, verification of project costs totaling \$32 million dollars, and documentation of the employment of at least 278 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available;
  - b) a Second Disbursement of an amount equal to 50% of the grant (\$300,000) will be disbursed upon documentation of the employment of at least 278 Full-time Permanent Employees at the Project Location and evidence of a production increase of an additional 425,000 cases of facial product from the Fort Edward plant over six consecutive months, demonstrating an annualized production rate increase of 850,000 cases (as verified by a Certified Public Accountant letter), provided Grantee is otherwise in compliance with program requirements;

Payment will be made upon presentation to ESDC an invoice and such other documentation as ESDC may reasonably require. Expenses must be incurred on or after November 9, 2007 to be considered eligible project costs. All disbursements must be requested by April 1, 2011.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$600,000, 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.
8. 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 ESDC, Grantee shall be obligated to repay to ESDC 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	278
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A	B
Date	Employment Goals
February 1, 2011	278
February 1, 2012	278
February 1, 2013	278

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 make significant investments in its manufacturing facility, thereby ensuring its continued viability and the retention of 278 employees. In addition, this project will help make the Company more competitive, and thus increase the economic viability of the state’s manufacturing industry.
2. The proposed project would be unlikely to take place in New York State without the

requested assistance.

Without ESD assistance, this project could have been relocated to an existing facility in Dieppe or Toronto, Canada, resulting in the loss of twenty employees.

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 \$9,948,839;
- Fiscal cost to NYS government is estimated at \$600,000;
- Project cost to NYS government per direct job is \$4,109;
- Project cost to NYS government per job (direct plus indirect ) is estimated at \$1,656;
- Ratio of project fiscal benefits to costs to NYS government is 16.58:1;
- Fiscal benefits to all governments (state and local) are estimated at \$16,596,021;
- Fiscal cost to all governments is \$600,000;
- All government cost per direct job is \$4,109;
- All government cost per total job is \$1,656;
- The fiscal benefit to cost ratio for all governments is 27.66:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$89,825,283, or \$247,963 per job (direct and indirect);
- The economic benefit to cost ratio is 149.71:1;
- Project construction cost is \$19,266,000 which is expected to generate 194 direct job year and 111 indirect job year of employment;
- For every permanent direct job generated by this project, an additional 1.49 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 1 year.

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 Village of Fort Edward Planning Board, as lead agency, has completed an environmental review of the 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  
Cost-Benefit Analysis

October 22, 2009

Fort Edward (Washington County) – Irving Tissue MAP 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

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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 Irving Tissue MAP 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 Irving Tissue, Inc. a grant for a total amount not to exceed Six Hundred Thousand Dollars (\$600,000) 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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October 22, 2009

Fort Edward (Washington County) – Irving Tissue MAP Capital – Empire State  
Economic Development Fund – General Development Financing (Capital Grant) –  
Determination of No Significant Effect on the Environment

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

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