

FOR CONSIDERATION

November 21, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Feura Bush (Capital Region - Albany County) – Owens Corning Insulating Systems Capital – Empire State Economic Development Fund – General Development Financing (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

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General Project Plan

I. Project Summary

Grantee: Owens Corning Insulating Systems, LLC (the “Company”)

ESD\* Investment: A grant of up to \$400,000 to be used for a portion of the costs to rebuild a glass furnace.

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

Project Location: 1277 Feura Bush Road, Feura Bush, Albany County

Proposed Project: Infrastructure and utility upgrades to rebuild a glass furnace, the purchase and installation of new machinery and equipment, and employee training to restart a fiberglass insulation manufacturing line.

ESD Incentive Offer Accepted: July 9, 2010

Project Completion: September 2011

Number of Employees at Project Location:

Initial employment (at time of ESD Incentive Offer):	176
Current employment level:	272
Minimum employment on January 1, 2014:	272

Grantee Contact: Alan Hoge, ISB Plant Controller  
 1277 Feura Bush Road  
 Feura Bush, NY 12067  
 Phone: (518) 475-3647  
 Fax: (419) 325-0827

Anticipated  
 Appropriation  
 Source: Empire State Economic Development Fund

ESD Project No.: X122

Project Team:	Origination	Arnie Will
	Project Management	Linda Dillon
	Affirmative Action	Gowshihan Sriharan
	Finance	Ross Freeman
	Environmental	Soo Kang

Regional Council: The Capital Regional Council has been made aware of this item.

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Machinery and Equipment	\$16,434,000
Infrastructure/Safety	1,261,000
Training	<u>1,800,000</u>

Total Project Costs \$19,495,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$400,000	2%
NYS DHCR*	500,000	3%
Company Equity	<u>18,595,000</u>	<u>95%</u>
Total Project Financing	<u>\$19,495,000</u>	<u>100%</u>

\* NYS Division of Housing and Community Renewal Training Grant

### III. Project Description

#### A. Background

Owens Corning (“Owens”) is a publicly-traded, Fortune 500 company (NYSE: OC) that was formed in 1938 as a joint venture between specialty glass maker Corning Glass and glass container manufacturer Owens-Illinois. Owens is a leading global producer of residential and commercial building insulation materials, glass-fiber reinforcements and engineered materials for composite systems. In 1980, Owens adopted the widely know Pink Panther cartoon character as it’s mascot and in 1987 made legal history by becoming the first company to trademark the color pink, to promote the sale of its PINK® Fiberglas™ insulation. Owens generated sales of \$5 billion in 2010 and has approximately 15,000 employees in 28 countries on five continents.

Owens Corning Insulating Systems, LLC is a wholly owned subsidiary of Owens. The Company owns an insulation manufacturing facility located in Feura Bush, Albany County, which is referred to as the Delmar plant due to its close proximity to the Town of Bethlehem. This facility is one of 13 Owens plants in North America that manufactures PINK Fiberglas™ insulation. This product is widely available through national retail outlets such as Home Depot, and Masco Corporation, distributor of building product supplies for the home improvement and construction markets. The Company’s main competitors are Certain Teed, a subsidiary of Saint-Gobain, and Johns Manville, an entity of Berkshire Hathaway. The Delmar plant began manufacturing glass insulation on one production line in 1976 and a second line was added to the plant in 1978. Since then, this facility has served as a primary supplier to the northeastern U.S. markets and has supplied product to other markets in the country.

Residential insulation demand lags U.S. housing starts by approximately three months and by 2007, the economic recession caused a dramatic decrease in housing starts. In response, Owens made the critical short term decision in late 2007 to shut down 50% of all of its capacity lines during the anticipated down economy. As a result, one of the two lines at the Delmar facility was shut down and over one-third of the plant’s 360 employees were laid off.

By 2010, Owens’ production volumes were down by over 50% from 2006 levels. While a complete recovery to 2006 levels was not anticipated within the next ten years, some volumes in the insulation business have begun to return. In response, Owens developed an investment strategy that would establish a structure for growth over the next ten years. Rather than reopen all previously shut down lines, the strategy involved targeted investments to re-start production at a single facility in each region of the country to handle demand over the long term. For the northeastern U.S. markets, the facilities competing for that investment in addition to Delmar included those in Candiatic, Canada; Fairburn, Georgia; and Newark, Ohio.

The Delmar facility’s location clearly made it the most attractive option in terms of market proximity, the anticipated \$19 million investment required to rebuild and restart the shuttered production line far exceeded the projected investment for the three other competing plants combined. Recognizing that investment in growth capacity was crucial for the Delmar plant to

become Owens' primary northeastern U.S. supplier, management reached out to the Capital Regional Office requesting assistance to establish the facility as the preferred location for the investment. An Incentive Proposal was developed offering a \$500,000 Capital grant from ESD and a \$500,000 Training grant from the New York State Office of Community Renewal. The Company accepted the Incentive Proposal on June 22, 2010.

In 2011, Owens Corning launched its EcoTouch® PINK® Fiberglas™ Insulation product platform, made with PureFiber® Technology, and began manufacturing EcoTouch® insulation at the Delmar plant. This newly developed class of high-performance residential and commercial insulation is formaldehyde-free and has achieved GREENGUARD Children & Schools<sup>SM</sup> Certification. EcoTouch® PINK® Fiberglas™ Insulation is made with natural materials that include a minimum of 36 percent post-consumer recycled glass and 58 percent total recycled content – a leading amount in the fiberglass insulation industry. Furthermore, the use of EcoTouch® PINK® Fiberglas™ Insulation contributes to achievement of energy efficiency and green building certifications including the Environmental Protection Agency's ENERGY STAR® program; the National Association of Home Builders' National Green Building Standard; and the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program.

Without ESD's Incentive Proposal, a competing Owens Corning facility would have been chosen for the investment, placing the Delmar plant and all 176 employees at risk over the long term.

#### B. The Project

The project included the rebuilding and restarting of an antiquated insulation production line that was shut down in 2007. Project costs included infrastructure and safety improvements, the purchase and installation of new machinery and equipment for the furnace rebuild and production line, and employee training. The project was started in June 2011 and the hiring of new employees began in July 2011. The new production line officially began operating in September. Subsequent to project completion, the Company determined that total full time employment would not exceed 272. As a result, the Company's job creation commitment was reduced from 120 to 96 and the grant was accordingly pro-rated to \$400,000. To date, all 96 new full time jobs have been created and total employment has reached 272.

As a result of the project, the Company has doubled manufacturing capacity and established the Delmar facility as Owens Corning's primary northeastern U.S. producer of EcoTouch® PINK® Fiberglas™ Insulation. Additionally, this investment contributes to the State's solid waste management policy by promoting the growth of a secondary materials recycling market in New York State for glass recovered through recycling efforts.

#### C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$400,000 capital grant (\$4,000) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.

2. The Company will demonstrate no material or adverse changes in its financial condition prior to disbursement.
3. Owens Corning will guarantee the grant repayment obligation of its subsidiary, Owens Corning Insulating Systems, LLC, in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed after the Company's acceptance of ESD's offer. Equity is defined as cash injected into the project by the Company or by investors, and should be auditable through Company financial statements or Company accounts, if so requested by ESD. Equity cannot be borrowed money secured by the assets in the project.
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 \$400,000 will be disbursed to Grantee upon in three installments as follows:
  - a) An Initial Disbursement of an amount equal to 50% of the grant (\$200,000) will be disbursed upon documentation of upgrades to the non operating production line, including the purchase and installation of machinery and equipment and safety and infrastructure project costs totaling \$15,000,000, upon completion of the project substantially as described in these materials, and documentation of the employment of at least 200 Full-time Permanent Employees at the Project Location (employment increase of 24), assuming that all project approvals have been completed and funds are available.
  - b) A Second Disbursement of an amount equal to 25% of the grant (\$100,000) will be disbursed upon documentation of the employment of at least 224 Full-time Permanent Employees at the Project Location (cumulative employment increase of 48), assuming that all project approvals have been completed and funds are available.
  - c) A Third Disbursement of an amount equal to 25% of the grant (\$100,000) will be

disbursed upon documentation of the employment of at least 272 Full-time Permanent Employees at the Project Location (cumulative employment increase of 96), assuming that all project approvals have been completed and funds are available.

Payment will be made upon presentation to ESD of an invoice and such other documentation as ESD may reasonably require. Expenses must be incurred on or after July 9, 2010, to be considered eligible project costs. All disbursements must be requested by April 1, 2014.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$400,000, 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 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	176
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A	B
Reporting Date	Employment Goals
February 1, 2013	176+X+Y+Z
February 1, 2014	176+X+Y+Z
February 1, 2015	176+X+Y+Z
February 1, 2016	176+X+Y+Z

X = Grantee's Employment Increment that will be the basis of the First Disbursement of the Grant as described in section C.5 above (i.e. X=24, and Employment Goals shall equal [176 + X = 200] 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 C.5 above (i.e. Y=24, and Employment Goals shall equal [176+ X + Y = 224] 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 C.5 above (i.e. Z=48 and Employment Goals shall equal [176 + X + Y + Z= 272] 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 176 and create 96 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 would likely have been relocated to an existing facility in Canada, Georgia or Ohio.

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 \$7,102,354;
- Fiscal cost to NYS government is estimated at \$400,000;
- Project cost to NYS government per direct job is \$2,729;
- Project cost to NYS government per job (direct plus indirect ) is estimated at \$1,423;
- Ratio of project fiscal benefits to costs to NYS government is 17.76:1;

- Fiscal benefits to all governments (state and local) are estimated at \$11,835,379;
  - Fiscal cost to all governments is \$400,000;
  - All government cost per direct job is \$2,729;
  - All government cost per total job is \$1,423;
  - The fiscal benefit to cost ratio for all governments is 29.59:1;
  - Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$63,740,119, or \$226,827 per job (direct and indirect);
  - The economic benefit to cost ratio is 159.35:1;
  - Project construction cost is \$1,261,000, which is expected to generate 12 direct job years and seven indirect job years of employment;
  - For every permanent direct job generated by this project, an additional 0.92 indirect jobs are anticipated in the state's economy;
  - The payback period for NYS costs is two 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.

VI. 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 and the implementing regulations of the New York State Department of Environmental Conservation. No further environmental review is required in connection with the project.

VII. Affirmative Action

ESD's Non-Discrimination and Affirmative Action policy will apply. The client 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.

VIII. 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.

IX. Additional Submissions to Directors

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

November 21, 2011

Feura Bush (Capital Region – Albany County) – Owens Corning Insulating Systems Capital – Empire State Economic Development Fund – General Development Financing (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 Owens Corning Insulating Systems Capital - Empire State Economic Development Fund – General Development Financing (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 President and Chief Executive Officer 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 President and Chief Executive Officer 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, President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Owens Corning Insulating Systems, LLC a grant for a total amount not to exceed Four Hundred Thousand Dollars (\$400,000) 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 President 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 President and Chief Executive Officer 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 President and Chief Executive Officer 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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