

FOR CONSIDERATION

August 18, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Niagara Falls (Western New York Region – Niagara County) – Ashland Advanced Materials 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: Ashland Advanced Materials LLC (“Ashland” or the “Company”)

ESD* Investment: A grant of up to \$225,000 to be used for a portion of the costs associated with the purchase and installation 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: 6100/6200 Niagara Falls Boulevard, Niagara Falls, Niagara County

Proposed Project: Purchase and renovation of an abandoned carbon manufacturing facility in Niagara Falls, and the purchase of new machinery and equipment.

ESD Incentive Offer Accepted: January 14, 2009 (initial offer); April 25, 2009 (revised offer)

Project Completion: April 2010

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	0
Current employment level:	28
Minimum employment on January 1, 2013:	75

Grantee Contact: Mr. Matt Reineke, President
6100/6200 Niagara Falls Boulevard
Niagara Falls, NY 14303
Phone: (419) 281-5800
Fax: (419) 281-0059

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No: W498

Project Team:	Origination	Ray Witzleben
	Project Management	Jim Seymour
	Affirmative Action	Helen Daniels
	Environmental	Soo Kang

Regional Council: The Western New York Regional Council has been made aware of this item.

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Acquisition	\$1,939,550
Construction/Renovation	544,895
Machinery and Equipment	4,907,551
Start-up Costs	<u>1,445,753</u>
Total Project Costs	<u>\$8,837,749</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$ 225,000	3%
Company Equity	<u>8,612,749</u>	<u>97%</u>
Total Project Financing	<u>\$8,837,749</u>	<u>100%</u>

III. Project Description

A. Background

Ashland, established in May 2008, is a privately owned carbon and graphite manufacturer established for the purpose of expanding business operations of Reineke Advanced Technology Inc. (“RadTech”) and PMG Acquisition Corp. d/b/a Americarb, Inc. (“Americarb” or the “Parent”). Ashland is a limited liability company and is wholly-owned by Americarb. The Parent, headquartered in Ashland, Ohio, has several other facilities including an advanced carbon and silicon carbide composites research and development facility in Tucson, AZ. and a manufacturing and distribution facility in YuYao, China that serves the China aftermarket for heating and heat containment systems for solar wafer producers.

Ashland manufactures composites, fiber based insulation products, fuel cell membranes, Li-Ion battery anodes and isostatic graphite used in technologies including but not limited to solar cells, fuel cells, windmills and lithium ion battery production. Ashland’s major competitors are Nippon Carbon, Japan; UCAR Carbon, United States; and Tokai Carbon, Japan. Major customers are GT Solar Industries, New Hampshire; Online Furnace, United Kingdom; and Beijing SanYe, China.

Realizing the potential and future growth focuses on emerging technologies for green and renewable energies where carbon and graphite are a key component, in late 2008, Ashland advised ESD that it was expanding operations and considering establishing a graphic manufacturing facility in the abandoned former SGL Carbon site in Niagara Falls. The former SGL site housed an oven valued at approximately \$4 million; however, it required considerable electrical upgrades, including a new transformer, with an estimated cost of \$1 million. The Niagara Falls site was competing against a site in close proximity to the Parent in Ashland, Ohio and the State of Ohio was providing significant incentives in an effort to persuade Ashland to expand operations there. In April 2009, ESD provided Ashland with an incentive proposal consisting of a \$225,000 capital grant resulting in the Company’s decision to establish a new facility in Niagara Falls. Without ESD assistance, the jobs would have been created out of state.

B. The Project

The \$8,837,749 project involves the acquisition and renovation of a 100,000-square-foot abandoned carbon manufacturing facility on a 15.5-acres previously owned by SGL Carbon and purchase of new machinery and equipment including sager cans, furnaces and new power systems necessary to establish the graphite manufacturing facility in the Niagara Falls. In addition, the Company will lease two additional buildings located on the property to house a large furnace used for carbonizing and graphitizing material and serve as storage of raw materials. The acquisition, renovation of the buildings and the purchase of the machinery and equipment was completed in August 2010. The Company has already created 28 jobs and has committed to create 75 jobs by January 1, 2013.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$225,000 capital grant (\$2,250) 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. Americarb, Inc. will guarantee the grant repayment obligation of its subsidiary, Ashland Advanced Materials, 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 \$225,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$112,500) upon completion of the building acquisition and renovation as evidenced by a certificate of occupancy, documentation of project expenditures of approximately \$5.1 million, and documentation of the employment of at least 25 Full-time Permanent Employees at the Project Location (Employment Increment of 25), 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 (\$56,250) will be disbursed upon documentation of additional project expenditures in the amount of \$2 million (aggregate of \$7.1 million), and the employment of at least 50 Full-time Permanent Employees at the Project Location (Employment Increment of 25), provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$56,250) will be

disbursed upon completion of the project substantially described in these materials; documentation of additional project expenditures in the amount of \$1,737,749 (aggregate of \$8,837,749); and documentation of the employment of at least 75 Full-time Permanent Employees at the Project Location (Employment Increment of 25), provided Grantee is otherwise in compliance with program requirements.

Payment will be made upon presentation to ESD of an invoice and such other documentation as ESD may reasonably require. Expenditures must be incurred on or after April 25, 2009, to be considered eligible project costs. All disbursements must be requested by April 1, 2013.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$225,000, 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	0
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A	B
Reporting Date	Employment Goals
February 1, 2012	0+X+Y+Z
February 1, 2013	0+X+Y+Z
February 1, 2014	0+X+Y+Z
February 1, 2015	0+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=25, and Employment Goals shall equal $[0 + X = 25]$ 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=25, and Employment Goals shall equal $[0 + X + Y = 50]$ if the Second 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=25, and Employment Goals shall equal $[0 + X + Y + Z = 75]$ 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 the 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 create 75 new jobs by January 1, 2013.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.

Without ESD assistance, the expansion of this Company would likely have taken place at its existing headquarters in Ashland, 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 \$3,374,496;
- Fiscal cost to NYS government is estimated at \$225,000;
- Project cost to NYS government per direct job is \$5,215;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,309;
- Ratio of project fiscal benefits to costs to NYS government is 15.00:1;

- Fiscal benefits to all governments (state and local) are estimated at \$5,719,574;
- Fiscal cost to all governments is \$225,000;
- All government cost per direct job is \$5,215;
- All government cost per total job is \$1,309;
- The fiscal benefit to cost ratio for all governments is 25.42:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$25,968,603, or \$151,135 per job (direct and indirect);
- The economic benefit to cost ratio is 115.42:1;
- Project construction cost is \$544,895 which is expected to generate 6 direct job years and 4 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 2.99 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 New York State Department of Environmental Conservation, as lead agency, has completed an environmental review of the proposed project, pursuant to the requirements of the State Environmental Quality Review Act and the implementing regulations of the New York State Department of Environmental Conservation. This review found the project to be an Unlisted Action, which would not have a significant effect on the environment. The lead agency issued a Negative Declaration on December 9, 2008. ESD staff reviewed the Negative Declaration and 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 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.

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

August 18, 2011

Niagara Falls (Western New York Region – Niagara County) – Ashland Advanced Materials 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 Ashland Advanced Materials 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 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, the President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Ashland Advanced Materials LLC a grant for a total amount not to exceed Two Hundred Twenty-Five Thousand Dollars (\$225,000) 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 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 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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August 18, 2011

Niagara Falls (Western New York Region – Niagara County) – Ashland Advanced Materials 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 Ashland Advanced Materials Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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