

FOR CONSIDERATION

May 23, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: South Glens Falls (Saratoga County) – SCA Tissue North America 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

General Project Plan

I. Project Summary

Grantee: SCA Tissue North America, LLC (“SCA” or the “Company”)

ESD* Investment: A grant of up to \$485,000 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 River Street, South Glens Falls, Saratoga County

Proposed Project: Facility expansion including the acquisition and installation of machinery and equipment and the construction of a new 40,000-square-foot building.

ESD Incentive Offer Accepted: July 24, 2008

Project Completion: November 2009

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	294
Current employment level:	281
Minimum employment through January 1, 2014:	286

Grantee Contact: Michael Mound, Regional Director, Northeast Operations
72 County Route 53
Greenwich, NY 12834
Phone: (518) 742-5667
Fax: (518) 692-8451

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: W409

Project Team:	Origination	Arnie Will
	Project Management	Linda Dillon
	Affirmative Action	Helen Daniels
	Finance	Amit Nihalani
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Construction	\$5,761,793
Machinery & Equipment	8,095,207
Contingency	<u>937,000</u>

Total Project Costs \$14,794,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$485,000	3%
Company Equity	<u>14,309,000</u>	<u>97%</u>
Total Project Financing	<u>\$14,794,000</u>	<u>100%</u>

III. Project Description

A. Background

SCA Tissue North America, LLC, is a division of SCA America (Philadelphia, PA), a unit of Svenska Cellulosa Aktiebolaget (NASDAQ: SCA). Svenska Cellulosa Aktiebolaget is a \$13 billion consumer goods and paper company headquartered in Sweden with operations in 50 countries

and over 51,000 employees worldwide. SCA Tissue North America, LLC, was formed in March 2001 when SCA America acquired nine production facilities from paper manufacturer Georgia Pacific. Later that year, SCA Tissue North America acquired Encore Paper Company, Inc., based in South Glens Falls, integrating recycled tissue manufacturing into the Company's operations. Since then, SCA has become the third largest producer of napkins, paper towels and toilet tissue serving U.S. away-from-home markets such as hospitals, restaurants, businesses, institutions and janitorial supply firms. Its significant competitors include Georgia Pacific and Kimberly Clark.

SCA has three operations in New York State including production facilities in South Glens Falls and Greenwich (Washington County) and a distribution facility in Saratoga Springs. The Company's Greenwich facility has 20 converting lines and 104 employees. The Company's manufacturing facility in South Glens Falls has 281 employees and five open positions, and consists of three paper machines and 12 paper converting lines. The South Glens Falls facility produces a premium line of hardwood towels and tissue for Tork Matic®, SCA's portion-controlled roll towel dispensing system. Tork Matic® reduces the risk of cross-contamination by eliminating the need for patrons to touch levers or handles, making it one of SCA's fastest growing product lines. SCA's other U.S. operations include production facilities located in Alabama, Arizona and Wisconsin.

Over the past ten years, SCA has invested over \$70 million in new equipment and upgrades at its New York facilities. However, the age of the South Glens Falls facility, which was constructed in the 1800s, and higher operating costs put the facility at a disadvantage in comparison to SCA operations elsewhere in the country. To illustrate, an investment proposed in 2006 that would have increased production at South Glens Falls was instead made at SCA's Alabama mill, largely due to lower labor and energy costs in that region of the country. Subsequently, the South Glens Falls facility began experiencing a decline in production as market share for the northeastern U.S. began shifting to SCA's lower-cost Alabama facility.

In 2007, a five-year plan was developed by SCA Tissue North America's Senior Leadership Team to secure SCA's future in New York State. The plan called for aggressive growth and set a goal of achieving 30% of sales from value-added products. The plan also called for cost reductions by phasing out older, less efficient converting machines. The 30% goal could only be met by an investment in efficiency improvements and equipment upgrades that would lower production costs and increase manufacturing capability of the Tork Matic® product line.

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 ESD'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.

In 2008, the Company met with ESD to identify ways to reduce the cost of the project. In order to induce the company to proceed with the \$14.8 million investment, ESD offered a \$500,000 MAP Capital grant to assist with the cost of a new converting line and the construction of a new building in which the line would operate. The offer was accepted in July 2008. Since then, the Company reorganized its Finance Unit to centralize operations. Total employment at the

project location was reduced to 286 (three positions are currently vacant) and the grant amount was accordingly pro-rated to \$485,000. Without ESD's assistance, the Company would have continued to lose significant market share to the Alabama facility and production capacity from the shutdown of four converting machines, weakening the Company's long-term viability in New York State and jeopardizing 286 full-time jobs.

B. The Project

The project included the construction of a new 40,000-square-foot building and the acquisition and installation of a new production line to increase the manufacturing of Tork Matic® products. The new building was strategically placed adjacent to the south wall of SCA's existing converting operation to maximize product flow. The new production equipment included a Perini industrial rewinder and log saws, Rolco tail tie equipment, a hoist system, case packing, sealing and conveyor systems, and electrical and mechanical installation. The project was completed in November 2009 and the facility was fully operational in March 2010.

Installation of the new converting line has had two major impacts on SCA's business: increased capacity and lower costs. In addition to increasing production capacity of Tork Matic® products, the new line has enabled SCA to continue production of conventional products including hardwood towels, centerpull towels and smaller diameter jumbo roll tissue more efficiently.

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): Produce 99,873 cases of Tork Matic® product over a three-month period, a 14% increase in output, from 29,100 cases per month to 33,291 cases per month.

Secondary Outcome(s): Reductions in waste; increased machine and labor efficiency.

Total estimated value of competitiveness and project outcomes: \$3,003,000 annually

D. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$485,000 capital grant (\$4,850) and 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. SCA Americas Inc. will guarantee the grant repayment obligation of its subsidiary, SCA Tissue North America, 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 Company's shareholders will 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 \$485,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$242,500) will be disbursed upon documentation of the purchase and installation of converting machinery and equipment, construction of a building to house the new equipment, project expenditures totaling \$8 million, and documentation of the employment of at least 286 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 (\$242,500) will be disbursed upon documentation of the purchase and installation of additional machinery and equipment for \$5 million (cumulative expenditures of \$13 million), documentation of the production of 99,873 cases of Tork Matic® product over a three-month period verified by the Plant Manager and an independent CPA, and documentation of the employment of at least 286 Full-time Permanent Employees at the Project Location, 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. Expenses must be incurred on or after

July 24, 2008, to be considered eligible project costs.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$485,000, 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	286
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A	B
Date	Employment Goals
February 1, 2012	286
February 1, 2013	286
February 1, 2014	286

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, ensuring its continued viability and the retention of 286 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 likely have been relocated to an existing facility in Alabama.

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 \$9,130,760;
- Fiscal cost to NYS government is estimated at \$485,000;
- Project cost to NYS government per direct job is \$3,471;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,399;
- Ratio of project fiscal benefits to costs to NYS government is 18.83:1;
- Fiscal benefits to all governments (state and local) are estimated at \$15,231,994;
- Fiscal cost to all governments is \$485,000;
- All government cost per direct job is \$3,471;
- All government cost per total job is \$1,399;
- The fiscal benefit to cost ratio for all governments is 31.41:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$84,161,899, or \$242,816 per job (direct and indirect);
- The economic benefit to cost ratio is 173.53:1;
- Project construction cost is \$6,698,793 which is expected to generate 67 direct job years and 38 indirect job years 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.

(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 Village of South Glen Falls Planning Board, 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 to be an Unlisted Action, which 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. SCA Tissue North America, 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

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

May 23, 2011

South Glens Falls (Saratoga County) – SCA Tissue North America 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

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 SCA Tissue North America 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 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 SCA Tissue North America, LLC a grant for a total amount not to exceed Four Hundred Eighty-Five Thousand Dollars (\$485,000) 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 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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May 23, 2011

South Glens Falls (Saratoga County) – SCA Tissue North America MAP 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 SCA Tissue North America MAP Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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