

May 21, 2013

**MEMORANDUM TO THE TRUSTEES**

**FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER**

**SUBJECT: Industrial Incentive Award Approval**

**SUMMARY**

The Trustees are requested to approve an Industrial Incentive Award (“IIA”) to Pratt Paper (NY), Inc. (“Pratt”) in accordance with the existing IIA Economic Development Plan.

**BACKGROUND**

Public Authorities Law (“PAL”) §1005(eighth unnumbered paragraph) directs the Authority to identify “net revenues” produced by the sale of Expansion Power (“EP”) and, further, to identify an amount of such net revenues that will be used solely for IIAs. The Authority is directed in Section 1005 to identify net revenues available for IIAs no less often than annually. Net revenues are defined by PAL §1005 as any excess of revenues properly allocated to the sales of EP over costs and expenses properly allocated to such sales.

IIAs are to be made in conformance with an economic development plan covering all such “net revenues.” The Authority submits a plan to the Economic Development Power Allocation Board (“EDPAB”) pursuant to Section 188 of the Economic Development Law (“EDL”) which also provides for EDPAB’s approval of the plan upon its determination that such Plan is consistent with, among other things, the economic development criteria provided for in EDL §§ 184 and 185 that evaluate applications for certain power.

At its October 26, 2009 meeting, EDPAB approved an Economic Development Plan (“Plan”) that allows the use of net revenues from the sale of EP for the calendar years of 2008 up through and including 2016 to provide electric bill discounts to manufacturing companies located in New York State that are at identifiable risk of closing or relocating to another state.

**DISCUSSION**

Economic conditions are placing financial burdens on many New York State manufacturing companies. Among these companies is Pratt, which operates a paper mill, a corrugated box factory and a sorting facility in Staten Island.

Pratt’s Staten Island facility has been in operation since 1997. Its facility is located in Con Edison’s service area and its typical energy usage is up to 150,000,000 kWh per year. Manufacturing processes represents a substantial portion of Pratt’s total electricity consumption, and energy costs are a primary consideration for where Pratt will operate.

Pratt is currently facing difficult economic challenges. In addition to being severely impacted by Super Storm Sandy and experiencing multi-million dollar losses not covered by insurance, Pratt has experienced significant increases in electricity costs. As a result, the competitiveness and long-term viability of its Staten Island facility is in jeopardy and it is considering relocating to a state offering substantial manufacturer incentives. Pratt's manufacturing plants include two sister facilities, one in Conyers, GA, and the other in Shreveport, LA. Compared to these sites, Pratt's Staten Island plant electricity cost per kWh is more than double the cost at Pratt's Conyers site and more than 70% higher than the cost at its Shreveport site. With such severe deterioration in the competitive position of the Staten Island mill, Pratt has indicated that it will be forced to scale back operations and ultimately relocate the mill. Additionally, Pratt has established an in-house committee to study the phased relocation of the Staten Island campus out of New York State.

It is recommended that the Board of Trustees authorize an IIA to Pratt in an annual amount of up to \$1 million per year for up to five (5) years. Authority staff has been communicating with Pratt about its situation and staff has determined that Pratt has demonstrated that it meets the qualifying criteria for an IIA. This recommendation comes after careful consideration of Pratt's business case.

The proposed form of the IIA would be a cents per/kWh price discount applied to a level of annual electric consumption. The IIA would be subject to, among other appropriate terms and conditions:

- Reevaluation and reduction should Pratt's electric rates decline during the term of the IIA.
- The availability of EP net revenue funding for IIAs, which is at NYPA's sole discretion;
- Appropriate determination(s) by the Trustees that the funding of IIAs in any fiscal year will not have a significant impact on the Authority's finances.
- Approval of an extension of the Plan by EDPAB beyond 2016 to the extent that an IIA to Pratt would extend beyond such year.
- A reduction in the amount of the IIA if Pratt does not meet agreed-upon job commitments (256 full-time employees) at the Staten Island facility.
- An agreement providing for the IIA and which address these and other appropriate terms and conditions in a form satisfactory to the Authority.

Accordingly, it is recommended that the Trustees approve an IIA to Pratt in an annual amount of up to \$1 million per year for up to five (5) years, subject to the foregoing terms and conditions. The Authority will report to the Trustees annually on the actual disbursement of funds.

### FISCAL INFORMATION

Industrial Incentive Awards may only be paid if sufficient net revenues are produced by the sale of Expansion Power and since such net revenues and associated awards are anticipated in each year's budget, it will not have a significant impact on the Authority's finances.

RECOMMENDATION

The Senior Vice President – Economic Development and Energy Efficiency recommends that the Trustees approve an Industrial Incentive Award to Pratt Paper (NY), Inc. in the amount proposed herein and subject to the aforementioned conditions.

For the reasons stated, I recommend the approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

Gil C. Quiniones  
President and Chief Executive Officer

Att.  
IIA – Pratt Paper

## **RESOLUTION**

RESOLVED, That the Authority hereby approves an Industrial Incentive Award (“IIA”) to Pratt Paper (NY), Inc., subject to the conditions provided for in the attached memorandum of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, The Vice Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take all actions and execute and deliver all agreements, certificates and other documents, to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.