

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION



MEMORANDUM

300 N. WASHINGTON SQ.
LANSING, MI 48913

CUSTOMER
CONTACT CENTER
517 373 9808

WWW.MICHIGAN.ORG

DATE: April 18, 2006
TO: Michigan Economic Growth Authority
FROM: Jim Donaldson, Vice President
Business Development
SUBJECT: Briefing Memo – Otsego Paper, Inc.
Standard Credit

COMPANY NAME AND ADDRESS:

Otsego Paper, Inc.
125 South Franklin Street
Chicago, Illinois 60606

HISTORY OF COMPANY:

Otsego Paper, Inc., is a fully owned subsidiary of the United States Gypsum Company, which is fully owned by USG Corporation. In 2005 USG Corporation reported sales in excess of \$5 billion, with 13,787 employees. USG is noted for its building gypsum board product trade names, such as "Sheetrock" and "Durock".

The company's parent has filed Chapter 11 bankruptcy. Bankruptcy protection was sought solely to provide protection from asbestos related claims, and the company does not plan to emerge from bankruptcy until this issue is addressed through federal legislation. In 2005, the company reserved \$3.1 billion to address claims in anticipation of their potential exposure. The company continues to grow and operate profitably despite this issue.

Otsego Paper, Inc., was formed in 2006 to investigate the acquisition of the assets of the former Menasha Paper mill in Otsego, Michigan.

PROJECT DESCRIPTION:

Otsego Paper is proposing to acquire and upgrade the former Menasha Paper facility, which closed in August 2005. USG presently owns seven paper mills in the United States that produce the paper required for the front and back of its Sheetrock panels. The capacity of these mills is insufficient for their present requirements and projected future needs.

EXECUTIVE COMMITTEE

MATTHEW P. CULLEN
Chair
General Motors

PHILIP H. POWER
Vice-Chair
HCN, Inc.

JAMES C. EPOLITO
President & CEO

RICHARD E. BLOUSE JR., CCE
Detroit Regional Chamber

JOHN W. BROWN
Stryker Corporation

DR. DAVID E. COLE
Center for
Automotive Research

JOANN CRARY
Saginaw Future Inc.

DR. HAIFA FAKHOURI
Arab American and
Chaldean Council

STEVEN K. HAMP
Ford Motor Company

HAYDEN H. HARRIS
EDF Ventures

PAUL HILLEGONDS
DTE Energy Company

DAVID C. HOLLISTER
Michigan Department of
Labor & Economic Growth

GEORGE JACKSON JR.
Detroit Economic Growth
Corporation

MICHAEL J. JANDERNOA
Bridge Street Capital
Partners, LLC.

ROBERT B. JONES
City of Kalamazoo

BIRGIT M. KLOHS
The Right Place, Inc.

DR. IRVIN D. REID
Wayne State University

DENNIS R. TOFFOLO
Oakland County

GARY TORGOW
Sterling Group

PETER S. WALTERS
Guardian Industries Corp.



Briefing Memo
Otsego Paper, Inc.
April 18, 2006
Page Two

If the company undertakes the project, an investment of up to \$102 million will be required to upgrade the existing recycled pulping facilities, rebuild one of the existing paper machines, provide additional warehouse facilities and perform environmental remediation. The project will lead to the creation of 112 new jobs in Michigan, paying an average weekly wage of \$789.

BENEFITS TO STATE:

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, we estimate that this facility will create a total of 201 jobs in the state by the year 2012. We also estimate that the project will generate total state government revenues through the year 2012, net of MEGA cost and adjusted for inflation, of \$3.8 million (2006 dollars) due to the expansion of this facility.

BUT FOR:

The company has considered similar projects in a number of locations, including New York, Ohio, Indiana and Ontario. The principal competing location for this project is an expansion of an existing USG paper plant in Oakfield, New York. Since the New York project is an expansion of an existing company owned facility, acquisition and upgrade of the Otsego facility will cost \$21 million more than an expansion of the New York plant.

OTHER STATE AND LOCAL ASSISTANCE:

The City of Otsego has proposed a 50 percent PA 198 tax abatement for the new real and personal property related to this project for 12 years. The estimated value of this abatement is \$6.6 million. Final tax abatement approval is expected in May, 2006.

Additionally, the State of Michigan has offered an abatement of the entire six-mill state education tax worth an estimated \$1.6 million. Training support of \$56,000, offered through the Economic Development Job Training (EDJT) program, will also be made available to support the project.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a 100 percent employment tax credit for five years, for up to 112 new employees.