

COUNCIL ON DEVELOPMENT FINANCE

**March 22, 2010
PUBLIC HEARING 359**

THOSE PRESENT:

Mr. Andy Lubin, Chairperson
Steve Biener, Esquire
Honorable Nancy Cook
Mr. Tom Gilligan
Honorable Greg Lavelle

Mr. Alan Levin
Mr. Gary Smith
Mr. Stephen Bach
Ms. Rachael Onorato
Mrs. Lee Porter
Mr. Jeff Stone
Ms. Karen Smith
Mr. Joe Zilcosky
Andrew Kerber, Deputy
Attorney General

ALSO PRESENT: Representing Projects: **Delmarva Power & Light Company** – Mr. Jeffery Snyder; **Compact Membrane Systems, Inc.** – Dr. Stuart Nemser and Louis C. Dinetta; **Hanover Foods Corporation** – Ms. Marty Bluth and Mr. Bill Simpson; **Nanticoke Memorial Hospital, Inc.** – Mr. Steve Rose and Mr. Darr Hall; **Advanced Office Installations** – Mr. Joe Cutler, Mr. Miguez Marrero and Mr. Jim Passwaters; **Advanced Aerosol Technologies, Inc.** – Mr. Scott McCaig and Mr. R. J. Valentine

LOCATION: Buena Vista, 661 South DuPont Highway, New Castle, Delaware 19720

TIME: 9:00 A.M.

CALL TO ORDER

The meeting was called to order at 9:05 A.M. by Mr. Lubin, Chairperson, on Monday, March 22, 2010.

NEW BUSINESS:

Delmarva Power & Light Company – (“DP&L” or the “Applicant”): The Applicant is requesting the issuance of industrial development revenue bonds in an amount not to exceed \$78,400,000. The proceeds of the bonds will be applied to refund (a) \$11,150,000 of Exempt Facilities Refunding Revenue Bonds (Delmarva Power & Light Company Project) Series 2000A, issued by the Authority to refinance certain gas facilities of the Applicant; (b) \$27,750,000 of Exempt Facilities Refunding Revenue Bonds (Delmarva

Power & Light Company Project) Series 2000B, issued by the Authority to refinance certain gas facilities of the Applicant; (c) \$20,000,000 of Exempt Facilities Refunding Revenue Bonds (Delmarva Power & Light Company Project) Series 2001A, issued by the Authority to refinance certain gas facilities of the Applicant; (d) \$4,500,000 of Exempt Facilities Refunding Revenue Bonds (Delmarva Power & Light Company Project) Series 2001B, issued by the Authority to refinance certain gas facilities of the Applicant; and (e) \$15,000,000 of Exempt Facilities Refunding Revenue Bonds (Delmarva Power & Light Company Project) Series 2002A, issued by the Authority to refinance certain gas facilities of the Applicant (the "Project"). The gas facilities being refinanced are owned and operated by the Applicant.

Mr. Snyder reiterated that this is basically a refunding. Representative Lavelle asked if DP&L was doing this to obtain a more favorable interest rate. Mr. Snyder stated that the current bonds were in a variable short term mode. He stated that the type of security which the bonds were invested in had bond insurance. However, those bond insurers lost confidence in the market and the company had to buy the bonds back and that market (option rate market) does not exist anymore due to the lack of AAA bond insurers.

Mr. Lubin asked if there were any public comments; there were none.

After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following finding: financing the Project will meet a need for assistance in financing the facilities and activities of the Applicant, as an exempt person within the meaning of 29 *Del. C.* §5052(8), in order to contribute to the prosperity, health and general welfare of the citizens of Delaware. Mr. Gilligan made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson of The Delaware Economic Development Authority, approval of an amount not to exceed Seventy Eight Million Four Hundred Thousand Dollars (\$78,400,000.00), of revenue bonds, not guaranteed by the State, to be used for the Project; and that such approval will remain in effect through and including March 21, 2011. Representative Lavelle seconded the motion, which was then adopted by unanimous vote except for Mr. Biener who recused himself due to a possible conflict of interest.

Compact Membrane Systems, Inc. ("Compact Membrane" or the "Applicant") - The Applicant is requesting a matching grant in the amount of \$50,000 from the Delaware Strategic Fund under the Delaware Technical Innovation Program. The Applicant proposes to use the proceeds to serve as bridge financing to develop the achievements it has accomplished during a successful, Phase I, USDA funded project throughout the successful completion of Phase II funding. The project is proposed to demonstrate membranes used for ethanol dehydration to be promoted towards the expansion, retrofitting, or building of ethanol plants (the "Project"). The Applicant is located at 335 Water Street in Newport, Delaware.

Dr. Nemser stated the company was founded in 1943. He stated that Compact Membrane was the biggest recipient of stimulus money regarding the green industries. He stated these funds allowed them to hire six people. He stated that in addition to sales, they have \$5,000,000 of existing contracts, and they anticipate an additional \$6,000,000 in sales.

Dr. Nemser stated that Compact Membrane is currently working on a program to significantly reduce the cost of making fuel grade ethanol by \$.22 per gallon. He stated this process has been successfully demonstrated at the laboratory level and will also help build the pilot operation.

Dr. Nemser stated that in the future, the same technology will be installed in new ethanol plants. He stated production would go from about 3 billion gallons a year to about 30-40 billion gallons a year. He stated this is very significant as the focus is now on “going green”. Dr. Nemser stated that DuPont is a major supplier.

Dr. Nemser stated that the bridge money will be used to maintain efforts in the area of drying ethanol. He stated that this Project will help Compact Membrane maintain its current work force and create a few new positions.

Mr. Gilligan asked where Compact Membrane found its employees. Dr. Nemser stated that they find employees from the University of Delaware, DuPont retirees, as well as other local people such as from AstroPower. He stated they also have three interns.

Mr. Lubin asked if there were any public comments; there were none.

After duly considering, inter alia, the nature of the business, that the Applicant is a “small business” within the meaning of 29 Del. C. §5035 (b)(3), that the Applicant has won a Phase I award in the Federal SBIR Program, that the Applicant has submitted a proposal for a Phase II SBIR award but has not yet received such award, that the Applicant’s principal place of business will be located in the State of Delaware; and that the research to be conducted will benefit the Delaware economy, and other requirements under applicable statutory and regulatory provisions, Mr. Biener made a motion that the Council recommend to Mr. Alan Levin, Chairperson of The Delaware Economic Development Authority, approval of a grant in an amount not to exceed Fifty Thousand Dollars (\$50,000) to be disbursed from the Delaware Technical Innovation Program (“DTIP”), to be used for the Project, contingent upon the approval remaining in effect through and including March 21, 2011. Representative Lavelle seconded the motion, which was then adopted by unanimous vote.

Hanover Foods Corporation (“Hanover” or the “Applicant”) - The Applicant is requesting a grant from the Delaware Strategic Fund program in the amount of \$60,000. The Applicant proposes to use the funds for capital expenditures in the rehabilitation of its existing industrial building located at Route 6 and Duck Creek Road in Clayton, Delaware and for the purchase and installation of machinery and equipment (the “Project”).

Mr. Stone presented this request to the Council. He stated that the company was founded in 1924 and has been in this facility since 1951. There are currently 89 employees.

Mr. Stone stated that Hanover plants, grows and processes almost all the products that the company sells. He stated that Hanover does contract with over 100 farm operations cultivating over 17,000 acres to supply their operations. He stated there have been continuous improvements made to the present facility. He stated Hanover is going to be spending approximately \$2,000,000 to this facility with \$1.5 million to the building and \$450,000 for a new piece of equipment. This new piece of equipment will be state of the art in sorting and food safety which Mr. Stone states is a huge issue today. Mr. Stone stated that DEDO was approached by Secretary Kee of the Department of Agriculture regarding this Project. Mr. Stone stated that DEDA is recommending a \$60,000 Delaware Strategic Fund grant which will go towards the purchase of the new piece of equipment. Mr. Stone stated that this funding will help allow Hanover to maintain its competitive situation and retain its current employees.

Mr. Bill Simpson stated that the food safety topic is a very hot topic today and stated they currently are running their lima beans through "laser electronics". He said this old equipment is 60-70 percent effective. The new equipment would make it 90% effective. Mr. Simpson stated that if there is a problem with their product, one day of bad press can ruin a company. He stated they have tested this new machine and it does an excellent job.

Mr. Lubin questioned the amount of debt this company took on in 2009. Mr. Bach stated that historically, from a liquidity prospective, and looking at their operating income, their ratios have gone up in a down market.

Mr. Lubin asked if there were any public comments; there were none.

After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following findings: (I) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or general welfare of the State; (iii) the Project will require a capital investment of at least \$10,000, which funds, including the loan proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested loan funds; (iv) the loan will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (v) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance. Representative Lavelle made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware

Economic Development Authority, and approval of a grant in an amount not to exceed Sixty Thousand Dollars (\$60,000) to be disbursed from the Delaware Strategic Fund, for the Project, contingent upon the approval remaining in effect through and including March 21, 2011. Mr. Gilligan seconded the motion, which was then adopted by unanimous vote.

Nanticoke Memorial Hospital, Inc. (“Nanticoke” or the “Applicant”) – In 2009, the Applicant received a loan in the amount of \$4,489,729.32 through the Delaware Strategic Fund. The Applicant is now requesting an amendment to the current loan agreements.

Mr. Rose stated that in February 2009, Nanticoke came before the Council and asked for a loan which was granted. He stated that at that time, Nanticoke was on the brink of disaster; its bond covenants were in jeopardy, etc. He stated the \$4,489,729.32 loan they received allowed Nanticoke to put new services in place. It allowed Nanticoke to create new jobs.

Mr. Rose stated that Nanticoke has nine new physicians. He stated to support their services; they have employed 39 in those offices with a \$1.5 million in salaries. He stated that in addition, Nanticoke had to make some improvements to its equipment. He stated they had to make many improvements. He stated their EBIDA has grown. Mr. Rose stated that February was not a good month for Nanticoke, but he believes the weather played a big part.

Mr. Rose stated that Nanticoke is here today to ask for the terms which require Nanticoke to make a balloon payment in May 2010 of approximately \$4,000,000, to be spread over a monthly basis and that Nanticoke be allowed to continue to make those monthly payments until the \$4,000,000 is paid off. He stated Nanticoke would like to pay it off sooner, but this would help Nanticoke stay afloat. He stated there has been a lot of great progress and they have received some good press. He hopes the trend will continue.

Mr. Rose stated that for their Cardiologists, they had to put up a lot of money up front for supplies, catheters, etc. He stated Dr. Zorsky, a cardiologist, has just come on the board full time. He stated they have a contract with an Orthopedist who is just getting started. Mr. Rose stated that Nanticoke’s trauma status has improved. Nanticoke will be visited in June to get its certification. Mr. Rose proudly stated that Nanticoke is going to get the bronze star for its Stroke Program. He stated this is an award that recognizes that Nanticoke has not only put the program in place but has also sustained the quality. Mr. Lubin asked if that involved physical therapy. Mr. Rose stated it did and he stated that Nanticoke is talking with a rehabilitation company to improve Nanticoke’s rehab services.

Mr. Rose stated that in the Pediatrics section, they have a team of three physicians and one nurse practitioner. He stated that Nanticoke had to hire another group since Nemours stopped doing in house visits. Mr. Rose stated that a hospital cannot have obstetrics without pediatrics. He also stated they are having more physicians signing up for

hospice. They also had a new ophthalmologist. Mr. Rose stated that the Emergency Department has a new Medical Director.

Mr. Biener asked about the breakdown of care. Mr. Rose stated that 42% is Medicare, 18% is Medicaid, 14% is Blue Cross and the rest is self insured. Mr. Biener asked about the contracts. Mr. Rose stated that Nanticoke has contracts with everyone – they are all year to year.

Mr. Hall stated that Nanticoke is renegotiating all contracts. He stated, however, with the new proposed healthcare, there are a lot of unknowns. He stated they do a lot of charity care. He stated Nanticoke is concerned about the healthcare reform putting that particular care group in jeopardy. He stated they have to be very careful about their rates.

Representative Lavelle stated he was fine with the request in light of all that Nanticoke has going on.

Mr. Biener asked if there was any thought of going to a shorter term. He questions if DEDA is putting itself out there for too long of a time. He asked if there had been any discussion on looking at it every couple of years.

Mr. Smith stated that when the CDF approved St. Francis, it was a five year balloon with a ten year amortization, thinking it would take them five years to get everything set up to be able to afford the payments. He stated that when DEDA started looking at the Nanticoke project, when the deal was being structured, DEDA saw some opportunity for an earlier payback but that was going to have a very significant impact on Nanticoke. Mr. Smith stated that this structuring will allow the hospital to bring in additional revenues. He stated that Nanticoke was the largest employer in Sussex County. He stated that terming this out was not an unusual situation.

Ms. Onorato stated that DEDO does at least an annual analysis. Mr. Bach stated at the least, there are default provisions. Mr. Smith stated the loan is guaranteed by the corporation itself.

Director Levin stated that with the new healthcare whatever it may be, these facilities need to know what they may be facing, and at least this would be something that would be consistent for them to count on. Mr. Levin stated that he believed this was the most important loan DEDA did last year.

Mr. Rose stated that Director Levin had been down to Nanticoke - and he believes they both have been keeping pretty good tabs on each other. He stated Nanticoke is so grateful for the State's support. He stated Nanticoke is very fortunate and the timing of the loan last year was just incredible. He stated Nanticoke has a lot of irons in the fire and they are proceeding.

Mr. Biener asked if Nanticoke had any exposure to the case of Dr. Bradley, the pediatrician who has been recently arrested for child abuse. Mr. Rose stated it did not have any relationship with Dr. Bradley at all. Representative Lavelle stated that currently there is a bill being proposed that will assist hospitals in identifying these types of situations.

Mr. Hall expressed his appreciation and said that Nanticoke wouldn't be here today if they had not received DEDA's support in the past.

Senator Cook stated that she remembered how important the St. Francis project was and that Nanticoke is certainly a lot different. In that situation, it was presented that if the State didn't step up to the plate, Catholic Health East, the parent couldn't afford to put up any more money. Senator Cook is pleased that Nanticoke has performed so well in the last year. Mr. Rose stated Nanticoke still has a lot of work to do but feels they are on the road to recovery.

Mr. Lubin asked if there were any public comments; there were none.

After duly considering the Applicant's request, Senator Cook made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, an approval to amend the current loan agreements to reflect a ten year term pursuant to the Applicant's current outstanding Delaware Strategic Fund loan, contingent upon the approval remaining in effect through and including March 21, 2011. Representative Lavelle seconded the motion, which was then adopted by unanimous vote.

Advanced Aerosol Technologies, Inc. ("Advanced Aerosol" or the "Applicant") - The Applicant is requesting a loan in the amount of \$175,000 from the Delaware Strategic Fund. The Applicant proposes to use the funds for working capital for its existing facility in Seaford, Delaware (the "Project").

Mr. McCaig stated that since Advanced Aerosol was before the Council last year, they have grown steadily. He stated that this has been a rewarding, exceptional place to work. He stated the previous company's responsibilities were bad but Advanced Aerosol has completed work and has established credit lines. He stated to get things back on line has cost a lot of money. However, they are up and working.

Mr. McCaig stated that the compounding and manufacturing areas of the plant were atrocious. The lines are now in perfect working order and Advanced Aerosol is in compliance. He stated when the Applicant started with this project, there were two employees. He stated they now have 12 and this has happened in the last seven months. He stated the plant and machinery are all in excellent working order. He stated they had to pay some unpaid taxes and insurance created by the previous owner which has cost Advanced Aerosol a great deal. Mr. McCaig reminded the Council that Advanced Aerosol also has put \$50,000 set aside as required by the loan documents.

Mr. McCaig stated Advanced Aerosol was told that the inventory was in good order. He stated they actually had to spend an additional \$10,000 but all in all, they have done very well getting it back on line. He stated the company's June profit was \$46,000. He stated the sales for this month will be a \$100,000 – within seven months, he doesn't feel that is too bad. He stated they hope to do \$1,000,000 in sales for this year. He stated they have added a Vice President of Sales. Mr. McCaig stated they have every person and everything in place.

Mr. McCaig stated that the burn rate for the first couple of months was \$120,000 - \$150,000. He stated Advanced Aerosol has bought a brand new line. He also stated they have a new client which just gave them a \$2.5 million order. He stated they will be doing 2,000,000 to 3,000,000 pieces – net profit of \$500,000. Mr. McCaig stated that Advanced Aerosol is at the turning point of being very, very close to being successful.

Mr. Valentine stated he has invested \$300,000 in Busy Paint and will match whatever is offered today into Advanced Aerosol. He stated that most of the marketing paint products produced today are high in carcinogens. He stated however, most of Advanced Aerosol's is mostly water. Mr. Valentine stated that there is a gentleman that they are working with that has a paint that will disappear in 45-60 days. He stated that this man was approached by the State of Pennsylvania for this marking paint. Mr. McCaig stated that they could sell 5-6,000,000 cans just in Florida. He stated the profit per can is \$.40. He stated Advanced Aerosol wants to get production to 10-20 million cans in the next two years.

Mr. Valentine stated they are very optimistic about what they are going to do with Easy Paint. He is also very optimistic about the way Mr. McCaig is running business. He stated they will be bringing on more employees.

Mr. McCaig stated he is at the plant every day. He makes sure all the lines are working and that everything is running smoothly. He states it will only take a little more time for the marking paint business alone to be 100,000,000 cans. He stated it would only take getting five percent of the market and if they do that, they will have 40 people working full time.

Mr. Gilligan asked if they had been to any banks. Mr. McCaig stated they had not. He stated that if Advanced Aerosol was doing \$5-8 million, then they would need to go to the banks.

Mr. Lubin asked if there were any public comments; there were none.

After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following findings: (I) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or

general welfare of the State; (iii) the Project will require a capital investment of at least \$10,000, which funds, including the loan proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested loan funds; (iv) the loan will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (v) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance. Representative Lavelle made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, and approval of a loan in an amount not to exceed One Hundred Seventy-Five Thousand Dollars (\$175,000) to be disbursed from the Delaware Strategic Fund, for the Project, contingent upon the approval remaining in effect through and including March 21, 2011. Mr. Gilligan seconded the motion, which was then adopted by unanimous vote.

Advanced Office Installations (“AOI” or the “Applicant”) - The Applicant is requesting a loan in the amount of \$280,000 from the Delaware Strategic Fund program. The Applicant proposes to use the proceeds for working capital for its customized office furniture operation located in New Castle County (the “Project”).

Mr. Cutler stated that AOI has been in business since 2005. There are three partners. There are forty-four employees who install office furniture. He stated that the reason they are before the Council today is because of a current project they are involved in known as BRAC – Aberdeen Proving Ground (“BRAC”). BRAC will involve the construction of thirteen buildings. AOI is the primary installation company for Douron an office furniture store in Baltimore which will be supplying the furniture for the BRAC project. AOI has submitted a bid to Douron for this project. Mr. Cutler stated that AOI will find out this week if it gets the job. If it does get the job, AOI will need to hire 38-40 more people. He stated their payrolls are quite large now.

Mr. Biener stated that the proposal should be contingent upon AOI winning that specific bid. Mr. Smith stated that one thing unique about this project is that it is the first one for BRAC and the Delaware Economic Development Office is hoping that down the road, we will see a lot more of Delaware companies obtaining BRAC contracts.

Mr. Lubin asked about the training program assuming they are fortunate to get this contract. Mr. Cutler stated AOI has an internal training process. They prefer to do their own training so they can teach them exactly what they need to know. Mr. Cutler stated they didn't want to have warranty issues. He stated those that work with steel are all certified.

Mr. Biener mentioned that the money will be paid back by the time the project is done.

Mr. Lubin asked if there were any public comments; there were none.

After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following findings: (i) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or general welfare of the State; (iii) the Project will require a capital investment of at least \$10,000, which funds, including the loan proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested loan funds; (iv) the loan will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (v) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance. Mr. Biener made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of a loan in an amount not to exceed Two Hundred Eighty Thousand Dollars (\$280,000) to be disbursed from the Delaware Strategic Fund, for the Project, contingent upon AOL receiving the BRAC Aberdeen Proving Ground bid and upon the approval remaining in effect through and including March 21, 2011. Mr. Gilligan seconded the motion, which was then adopted by unanimous vote.

Project Update: Ms. Onorato updated the Council on the status of projects of concern.

ISOGEN, LLC – This company received a \$1,500,000 Delaware Strategic Fund loan on July 24, 2008. Ms. Onorato updated the Council on the status of the Isogen loan.

Platinum Hanger, LLC – This company received a \$470,490 Delaware Strategic Fund loan on May 28, 2009. Ms. Onorato updated the Council on the status of the Platinum loan.

Rite Tech Aerospace, LLC – This company received a \$100,000 Delaware Strategic Fund loan on December 27, 2007. Ms. Onorato updated the Council on the status of the Rite Tech loan.

Scientific Products & Systems, Inc. – This company received a \$700,000 Delaware Strategic Fund loan in 2006. Ms. Onorato informed the council that the project is currently in liquidation.

St. Francis Hospital, Inc. – This company received a \$4,000,000 Delaware Strategic Fund loan in 2007. Ms. Onorato stated that St. Francis is meeting its pro formas. The staff will be monitoring this project closely even though the first principal payment is not due until August 1, 2012.

Mr. Lubin requested that DEDO prepare monthly reports to the Council informing them of the projects currently in trouble and the status of such projects. Ms. Onorato stated that she would do so.

ADJOURNMENT

The meeting adjourned at 10:15 a.m.

Respectfully submitted,

Lee Porter, Secretary

LKP

cc: Members of the Council on Development Finance
Director Alan Levin
Ann Marie Johnson, Deputy Attorney General

The next CDF meeting is scheduled for Monday, April 26, 2010, at 9:00 A.M. at Buena Vista in New Castle, Delaware.