

COUNCIL ON DEVELOPMENT FINANCE

November 29, 2010
PUBLIC HEARING 366

THOSE PRESENT:

Mr. Andy Lubin, Chairperson
Mr. Tom Gilligan
Mr. Donald Lynch
Mr. Jack Riddle
Representative Darryl Scott
Mr. Fred Sears
Mrs. Richelle Vible

Director Alan Levin
Mr. Gary Smith
Mr. Stephen Bach
Ms. Rachel Onorato
Mrs. Lee Porter
Ms. Nikki Lavoie
Ms. Bernice Whaley
Ms. Patty Cannon
Ann Marie Johnson, Deputy
Attorney General

ALSO PRESENT: Representative Greg Lavelle; Mr. Michael Morton, Controller General's Office, Ms. Andrea Godfrey – Office of Management and Budget; Mr. Paul Sample; Representing Projects: **Chimes Metro, Inc.** – Mr. Martin S. Lampner, Chimes; Mr. Michael Kearney, Susquehanna Bank and Emilie Ninan, Esquire, Ballard Spahr LLP; **DelSoy International, Inc.** – Ms. Deb Pace, Secretary of Agriculture Mr. Ed Kee; **Converting Solutions, L.P.** – Mr. Justin Cutler, Mr. Eric Seltzer, Mr. Matthew Henning

LOCATION: Delaware Economic Development Office, 99 Kings Highway, Dover, Delaware 19901

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, November 29, 2010.

OLD BUSINESS:

Mr. Sears made a motion that the minutes of the October 25, 2010 Council on Development Finance meeting be approved as presented. Mr. Gilligan seconded the motion which was then adopted by unanimous vote.

NEW BUSINESS:

Mr. Lubin welcomed Senator Darryl Scott as a new member of the Council.

Mr. Lubin informed the Council that he had been informed that the Pencader Education Association project had requested that its request be taken off today's agenda.

Mr. Lubin requested a modification to the agenda so that the DelSoy project could be presented first.

DelSoy International, Inc. ("DelSoy" or the "Applicant") – The Applicant is requesting a loan in the amount of \$35,000 from the Delaware Strategic Fund. The Applicant proposes to use the funds for sponsored research for developing DelSoy's initial product at a facility to be located either in Kent or Sussex County, Delaware (the "Project").

Mr. Stone presented this request to the Council. He stated that this is a different and very unique project opportunity which involves local entrepreneurs and world known researchers. He stated it is also an example of Governor Markel's commitment to the agricultural industry. He stated DEDO has a strong partnership with the Delaware Department of Agriculture ("DE-AG"). Mr. Stone stated that the Governor and the Secretary of Agriculture, Mr. Kee, support this Project. He stated this project will contribute to Delaware farmers and to agricultural relief.

Mr. Stone stated that DelSoy is developing nutritionally-complete soy-based ready to use food products to be used for humanitarian purposes. He stated DelSoy has received a \$20,000 grant from the DE-AG to develop the prototype product.

Secretary Kee spoke on behalf of the Project. He also stated that there is a great relationship between the DE-AG and DEDO and this project is an example of DEDO's continuing commitment to agriculture. He feels there is a definite need for this product and strongly supports DelSoy's efforts.

Secretary Kee stated that Mr. Ken Boulden came to the DE-AG with a concept that was developed in France for a nutritionally complete, high protein product that would enable people to get through starvation periods. Mr. Boulden had confirmed that the product could be made from Delaware soybeans.

Secretary Kee stated that soybeans are perfect for this and it is a very practical project. He stated that because the research had been favorable, the next step in the program was to develop some prototype products in order to conduct additional research and to work towards commercialization. He stated it is not only about a third of the product's use would be for world famine disasters, as the product can be tailored for young children in urban areas, seniors and the medical community. In general, it is a real humanitarian product. He stated that Delaware has the soybeans and the farmers and Delaware is the

place for this to happen. He stated the product would not require water nor would it have a shelf life.

Mr. Riddle asked if DelSoy felt it would be coming back before the Council for other assistance. Mr. Stone stated that what is being presented today is the only segment that has been discussed with DelSoy.

Ms. Pace stated that she was very appreciative of Secretary Kee's presence and comments. She stated there are 190,000 acres of commercial soybeans in the State of Delaware. She stated that the raw soybean has been taken from an unpalatable state to a much higher level.

Ms. Pace stated DelSoy is requesting the \$35,000 needed to obtain final rights to the research required for this Project. She stated that Dr. Marin Lo, Director of the University of Maryland's Food Science Graduate Program and formerly with the University of Delaware has completed his work and is waiting to release the information to DelSoy so DelSoy can file a patent. Patent rights are critical to developing the product and she stated that they will continue to work with Dr. Lo and with SCORE and with anyone else needed to proceed with the Project.

Ms. Pace stated she owns 100 percent of the company and is seeking the financing. She stated she is also looking for venture capital. However to continue, they need the final specifications for the project which is what this funding will allow them to do. She stated the insurance representatives are on standby and they also have board members on line. She stated DelSoy will start with twelve jobs but that number could increase even in the first six months.

Mr. Lubin stated that there is a difference in peanut oil and soy which involves allergies. He stated there have not been any allergies related to the soy.

Ms. Pace stated that in addition to its hypoallergenic qualities, the product completely eliminates gastrointestinal stress, and has no preservatives.

Director Levin stated he is very happy that DelSoy has taken this humanitarian direction. He believes it is a great venture and that the best part is that DelSoy has done all of the leg work and is ready to proceed today.

Mr. Riddle asked if there was a budget for manufacturing. Ms. Pace stated that it was difficult to determine all production costs until they have obtained the research results on the process which they expect from Dr. Lo. They are seeking small business funding. She stated this is known as "pull" marketing. DelSoy needs to focus on where the greatest need is for this product. She stated they have looked at child nutrition programs and there is a massive need for products with high protein such as this product. She stated she doesn't anticipate coming back for future funding. Ms. Pace stated she has had

negotiations with several agencies regarding the location. Preferably they would like to be in Kent or Sussex. They are still determining whether they should buy or lease the land and the equipment.

Mr. Sears asked if there was competition. Ms. Pace stated that no one is producing a product the way DelSoy is with the lack of preservatives, low sodium and which eliminates the gastrointestinal stress. She stated that she can say that there are currently no patents out there for this specific product. She stated that they hope to locate in Kent or Sussex County.

Mr. Lubin asked if there were any public comments. Mr. Paul Sample asked if there was a chemical process involved in production. Ms. Pace stated that there was not and that the processing protocol is 95% organic and estrogen free.

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. Riddle 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 Thirty-Five Thousand Dollars (\$35,000) to be disbursed from the Delaware Strategic Fund, for the Project, contingent upon the approval remaining in effect through and including November 28, 2011. Mr. Gilligan seconded the motion, which was then adopted by unanimous vote.

Chimes Metro, Inc. ("Chimes" or the "Applicant"), a Maryland nonprofit corporation qualified to do business in Delaware, an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 and a subsidiary of Chimes International Limited, a Delaware nonprofit corporation. The Applicant has applied for an issuance of revenue bonds in an amount not to exceed at any time \$2,500,000.00. The proceeds of the revenue bonds (the "Series 2010 Bonds") will be applied to make a loan to the Applicant in order to (a) acquire land and construct a wheelchair accessible home at 154 Forest Lane, Newark, DE 19714; (b) refinance a loan with Wilmington Trust Company, in the approximate amount of \$501,595.95, which was used to finance two group homes for

persons with disabilities located at 5 Wollaston Road, Wilmington, DE 19810 and 10 Cordele Court, Newark, DE 19711, (c) refinance a loan from PNC Bank via the Chimes International Limited line of credit in the approx. amount of \$1,604,405 which was used to finance the other homes for persons with disabilities referenced above; and (d) finance the costs of issuance of the Bonds (the "Project"). The Project is owned by the Applicant.

Mrs. Ninan stated that the TEFRA requirements have been met. She stated that the bond funds would be used by Chimes Metro, Inc. to pay down loans already outstanding which were used to finance group homes. She introduced Mr. Kearney and Mr. Lampner. She stated this would be a bank qualified deal which would be purchased by Susquehanna Bank. Mrs. Ninan stated that with these bonds there is no credit or liability on behalf of the State or DEDO and that no bond volume cap was being used.

Mr. Lampner stated that Chimes is a 63 year-old agency providing services to developmentally disabled individuals. He stated there are facilities in six states and in Israel. He stated that Chimes has grown to be Delaware's largest provider of these services. He stated Chimes has a great relationship with the State and this Project will benefit the State as well as Chimes. Mr. Lampner stated that they take some of the most difficult people and work with them to improve their lives.

Mr. Gilligan asked the status of Susquehanna's loan commitment from Susquehanna Bank. Mr. Kearney indicated that they have a signed commitment and that the only contingency was to receive approval from the CDF. He stated they are ready to proceed with the proper documentation.

Mr. Gilligan asked why Chimes discontinued its operations in New Jersey. Mr. Lampner stated that Chimes left New Jersey because it could not remain viable in the market. He stated that they could not hire staff to provide the care that Chimes expects. He also stated that they also could not acquire the real estate in New Jersey and that rental costs were very high.

Mr. Riddle asked about the deferred revenue on the 2009 balance sheets. Mr. Lampner stated that there were several issues going on. He stated they have a rather complex legal matter going on which involved the federal government and a subcontractor which was resolved in their favor. He stated that Chimes purchased homes which involved short term borrowing. He stated that they purchased property in Delaware, which was an expense, but which saved on rental expense. Cash needs were met by a loan from Chimes, Inc. to Chimes Metro. Mr. Scott asked about the write-down. Mr. Lampner stated they entered into a venture to support disabled veterans. However, that investment had to be written off as it was unsuccessful. He stated that some of their other investments changed radically in value due to the market. He also stated that government receivables affected that figure. Mr. Lampner stressed that this was all in 2009 and that 2010 has been their best year yet, and that they have recovered a lot from those numbers.

Mrs. Vible asked about Chimes' relationship with Delaware. Mr. Lampner indicated that while they are always seeking more funding, that Delaware has one of the best track records for funding and a good reimbursement rate. New Jersey, by contrast, is the 48th worst state for reimbursement rates.

Mr. Lubin asked about the number of jobs. Mr. Lampner stated that there are currently 234 Full-Time employees and 51 jobs directly related to the residential homes which are for what the funding is being requested. The funding will partially increase the number of jobs. Mr. Lubin asked that the write up presented to the CDF for this Project be corrected to reflect these numbers.

Mr. Lubin asked if there were any public comments. Mr. Sample asked if this Project would be affected by Wilmington Trust's reorganization; the response was no, as this funding will replace the Wilmington Trust financing.

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. Sears 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 Two Million Five Hundred Thousand Dollars (\$2,500,000.00), 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 November 28, 2011. Mrs. Vible seconded the motion, which was then adopted by unanimous vote.

Converting Solutions, L.P. ("Converting Solutions" or the "Applicant") - The Applicant is requesting a convertible loan from the Delaware Strategic Fund program in an amount of \$350,000 of which \$100,000 would become a grant after three years based on the Applicant meeting certain employment criteria. Additionally, there is a Strategic Fund Grant being requested in the amount of \$50,000 to be used to upgrade the facility which the Applicant is relocating from Aston, Pennsylvania to 700 Centerpoint Drive in New Castle, Delaware (the "Project").

Ms. Cannon presented this request to the Council. She stated that in the paper mill business there is a very small margin for profit. The only way to make a profit is to do production in very huge rolls. Converting Solutions gets the supersized rolls and puts it on special equipment which slits and rewinds the paper onto smaller rolls. Converting Solutions does not make paper or anything that you can buy. Converting Solutions provides the intermediate step for marketing the paper. Ms. Cannon stated that the company projects creating 75 jobs immediately and increasing that number to 89 by the end of year three. She stated they have already found another company that will use its

services. She stated she understands that the profit margins are slim and the financials don't look very strong for the past few years but she believes the company is on the road to success and has few competitors. She stated that she believed that manufacturing jobs were good for Delaware.

Mr. Henning stated that Converting Solutions is basically a link in the manufacturing chain. He also stated that for the mills to be more profitable they need to make the rolls as big as possible. He stated that the conversion to smaller rolls used to be done in-house, but that it is very expensive. Converting Solutions provides an outsourced option for manufacturers. He stated they are at a very difficult hurdle because Converting Solutions has to put money in to buy the machines. He stated that was the reason it took them a little longer to get the company a little financially stronger.

Mr. Henning stated that Delaware is a great location for their business because of the access to the highway network, and the skilled and educated workforce at prices that were more reasonable than the New York and California markets. He indicated that the business is not portable and that they expected to be in Delaware for a long time.

Mr. Henning stated that the need for converted paper rolls is time sensitive. The manufacturers need Converting Solutions to complete the product in two-four weeks. He stated the European paper companies need a converting source in the USA. He stated that this adds up to \$2 million plus in business for them.

Mr. Cutler stated that these companies do not want to lose a North American market. He stated Converting Solutions had a facility in Pennsylvania originally where most of the internal companies came to Converting Solutions. He stated they moved to Delaware about a month ago and they immediately started getting calls from overseas companies. Because of tariffs on Chinese paper converting companies, European and Asian businesses are interested in outsourcing in the U.S. He stated they have partnerships where they have employees on their site with them. They have partnered up with some of the biggest companies in the world including Unisource, Rocktenn, Proctor and Gamble and DuPont.

Mr. Henning stated that Converting Solutions is not a distribution center. The equipment is bolted to the building.

Mr. Riddle asked if the move was complete. Mr. Henning stated they are in the process of completing their move. Mr. Riddle inquired about the \$1,000,000 in bank loans. Mr. Henning stated the equipment was purchased by private funds from original investors. Mr. Riddle asked about the \$900,000 of accrued expenses. Mr. Seltzer stated that when the economy went through the recession, Converting Solutions made a deal with Unisource. They took two years to move, and has a dispute over a partial payment of rent with their former landlord. He stated that the \$600,000 - \$700,000 which is for partial rent will eventually appear as a note payable.

Mr. Seltzer stated that in 2010, the company shows a loss but in July the company made money. He stated that the company has a three payroll month that knocks out profit. He stated that August and September should show a \$50,000 - \$60,000 profit and November will be limited. He stated that in November they moved all the machines and as a result they shut down which also reduced the revenue. Mr. Seltzer stated that the company will resume by January and Converting Solutions should be fully operational.

Mr. Gilligan asked if the company had a projection showing the company as profitable. Mr. Seltzer stated that Converting Solutions is profitable now except for taking the machines apart and moving them which has an effect as well as the depreciation expense. He stated every month should show a growth.

Mr. Seltzer stated Converting Solutions has a good relationship with the Port. Further, the company is bringing in a new customer from New England, Emerol, which could also bring work to the Port.

Mr. Cutler stated that Converting Solutions needs more machines. He hates to say no to customers because the company needs more machines.

Mr. Lubin asked if going from 140,000 to 200,000 square feet and relocating the equipment from Aston, would meet the company's growing needs. Mr. Cutler stated that no, they would continue to grow and would continue to need to expand. He stated Converting Solutions has only tapped into 50-60 percent of the volume available here. He stated that out of the fifty-one employees coming from Pennsylvania to Delaware, eleven of them are seeking housing to move here permanently. He also stated they have hired four new employees from Wilmington. He stated they will hire another thirty-nine employees for the additional equipment which they anticipate needing and acquiring.

Mr. Lubin asked about the current negotiations with a specific note payable. Mr. Seltzer stated that the note will be payable to owner of the previous buildings. He stated that regarding the aged accounts of \$828,000, would mostly be the landlord bill with about \$200,000 being for trade vendors. Mr. Lubin asked about the funds requested today. Mr. Seltzer stated that the \$350,000 loan and \$50,000 grant requested today would not get commingled with the current outstanding debts – the loan and grant are for relocation costs. Mr. Lubin suggested that the conversion be conditioned upon a showing of relocation costs.

Mr. Hemming stated that he believes that when people find out about Converting Solutions, they will get more business. They expect business from Asia from the Pulp and Paper Company whose American subsidiary is Eagle Ridge. Mr. Seltzer stated that they anticipate clearing \$80-100,000 starting in February and should continue to grow during the year.

Mr. Lubin noted their change from LLC structure to LP, and inquired as to the general partner. Mr. Seltzer indicated that they had a corporate general partner, Conex and Mr. Lubin suggested that there be a corporate guarantee of the loan by Conex. Mr. Lubin asked if the balance sheets provided had been internally prepared. Mr. Seltzer stated that the documents were prepared externally but the data came from internal sources. He stated that the company changed accountants in 2009 because an employee who maintained that position within the company left the firm. Mr. Gilligan stated he would like to see some kind of projections. Mr. Scott asked who is responsible for day to day operations and Mr. Henning indicated that he was. Mr. Henning indicated that the company did not have any loans to any partners outstanding. The Council expressed the need for more current financial statements and would like Converting Solutions to provide documentation of the rent dispute.

Mr. Lubin indicated that the Council is anxious to have Converting Solutions in Delaware and want them to grow and succeed but also explained the Council's fiduciary responsibility as a recommending body to the Director of DEDO and felt more information was needed before a recommendation could be made.

Mr. Sears made a motion to defer action on the application submitted by Converting Solutions until more information could be submitted and reviewed by the Council. This information would include aging of accounts payable, resolution of rent dispute, notes and loans to partners, financial projections, etc. Representative Scott seconded the motion, which was then adopted by unanimous vote.

If sufficient information is submitted, it is anticipated that this project will be presented at the December 20, 2010 Council meeting.

Executive Session - Mr. Sears made a motion that the Council go into executive session to discuss confidential and privileged commercial and financial information in accordance with 29 Del. C. §10004(b)(2). The motion was seconded by Mrs. Vible, which was then adopted by unanimous vote.

Mr. Sears made a motion that the Council go out of executive session. The motion was seconded by Mr. Gilligan which was then adopted by unanimous vote.

ADJOURNMENT

The meeting adjourned at 10:45 a.m.

Respectfully submitted,

Lee Porter, Secretary

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LKP

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

The next CDF meeting is scheduled for Monday, December 20, at 9:00 A.M. at Buena Vista.

