

COUNCIL ON DEVELOPMENT FINANCE

**October 24, 2011
PUBLIC HEARING 377**

THOSE PRESENT:

Mr. Andy Lubin, Chairperson
Senator Brian Bushweller
Honorable Nancy Cook
Mr. Jack Riddle
Representative Darryl Scott
Mr. Fred Sears
Mrs. Richelle Vible

Director Alan Levin
Mr. Gary Smith
Mr. Robert Merritt
Mr. Stephen Bach
Mrs. Rachael Mears
Mrs. Lee Porter
Ms. Beverly Ennis
Ann Marie Johnson, DAG
Ms. Nikki Lavoie
Mrs. Bernice Whaley

ALSO PRESENT: Mr. Mike Morton, Ms. Michele Sloan – Office of Management and Budget; Mr. Forrest Verhine and Ms. Joan Verhine, Ms. Jessica Eisenbrey, *Delaware State News*, Projects: **Delaware State University** – Emilie Ninan, Esquire with Ballard Spahr LLP, Mr. Amir Mohammadi and Mrs. Sheila Winfrey-Brown, and Mr. Julius Coursey with Wells Fargo; **Computer Aid, Inc.** – Mr. Skip Pennella, Mr. Ernest Disnastis;

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, October 24, 2011.

OLD BUSINESS:

Mrs. Vible made a motion that the minutes of the September 26, 2011 Council on Development Finance meeting be approved as presented. Mr. Sears seconded the motion which was then adopted by unanimous vote.

NEW BUSINESS:

Delaware State University (“DSU” or the “Applicant”) - DSU is requesting approval for the issuance of an amount not to exceed \$50,000,000 in revenue bonds which will be issued in one or more series and will be applied to make a loan to the Applicant to fund, or to reimburse the Applicant for, one or more of the following undertakings (collectively, the “Project”): (1) the refinancing of certain maturities of The Delaware Economic Development Authority Revenue Refunding Bonds (Delaware State University Project) Series 1999, which originally refinanced certain maturities of (a) The Delaware Economic Development Authority Revenue Bonds Delaware State College Project Series 1992, which originally financed the acquisition of certain capital assets and the making of certain capital improvements by the Applicant and (b) The Delaware Economic Development Authority Revenue Bonds (Delaware State University Project) Series 1996, which originally financed a portion of the costs of certain capital facilities and equipment for the Applicant; (2) the purchase from Delaware State University Student Housing Foundation of University Village, a four building, 628 bed student housing facility and dining hall located on the campus of Delaware State University, through the refinancing of the Kent County, Delaware Variable Rate Demand Student Housing Revenue Bonds (Delaware State University Student Housing Foundation Project) Series 2004B; (3) the financing of a portion of a new optics center or other capital expenditures of the University as the board may approve; (4) the funding of any required reserve funds relating to the Bonds; and (5) the costs of issuance and any credit enhancement of the Bonds for this project located on the main campus of the Applicant located at 1200 North DuPont Highway in Dover, Delaware (the “Project”). The Project will be owned and operated by the Applicant.

Ms. Ninan stated that DSU is a 501 (c) corporation and therefore these bonds will not affect the Authority’s bond volume cap. Mr. Mohammadi stated that DSU feels this is the appropriate time to refund bonds currently backed by the Delaware State University Student Housing Foundation.

Senator Bushweller questioned the proposed financing of a new optics center or other capital expenditures as described in the CDF write up. Mr. Mohammadi stated that DSU has a lot of maintenance needs at this time. He further stated that DSU had received \$10,000,000 for a new optic center and DSU wants to make sure that the appropriate funds are used/available for this center. Senator Bushweller asked if DSU was current on all bond obligations and Mr. Mohammadi stated DSU was current.

Mrs. Ninan stated that for tax purposes, the TEFRA notice was drafted broadly to catch all possibilities for the use of funds. She stated that if in fact, DSU couldn’t use the funds allocated for the optics center because of arbitrage, it would allow more flexibility for the use of the funds.

In response to Mrs. Vible’s question, Mr. Mohammadi stated that DSU’s enrollment as of October 21, 2011, was 4,178 which is 450 more than a year ago and that DSU’s future looks promising.

Mr. Riddle asked if the requested funding was for a separate legal entity. Mr. Mohammadi stated DSU will be borrowing money to refund the bonds currently held by the DSU Student Housing Foundation. Mr. Mohammadi further stated that the financial statements reveal both entities' financial information.

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. Senator Bushweller 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 Fifty Million Dollars (\$50,000,000.00), 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 October 23, 2012. Mr. Sears seconded the motion, which was then adopted by unanimous vote.

Computer Aid, Inc. (“CAI” or the “Applicant”) – The Applicant is requesting a grant from the Delaware Strategic Fund program in the amount of \$500,000. The Applicant proposes to use the funds for the expansion of its existing business located in Wilmington, Delaware (the “Project”).

Mr. Merritt presented this request to the Council. Mr. Pennella stated that CAI is currently headquartered in Allentown, Pennsylvania. CAI's Delaware Valley Regional Office is located in Wilmington, Delaware and has been in operation for the last twenty-five years. Mr. Pennella stated there are approximately 800 employees at the regional office.

Mr. Pennella stated that software testing, application management and some call center work will be done at the Newark facility. He stated that they have about twenty clients with some being small and some being large. Mr. Pennella stated that before December 2, 2012, CAI hopes to hire approximately 250 Delaware based employees. He stated that to date they have hired 138 full time Delaware employees. He explained that this employment increase is a result of several contracts that CAI is working on.

Mr. Pennella stated that CAI offers opportunities to University of Delaware students by giving them a chance to work while they are in school. He stated they have about 30 students currently. He stated that one of the most interesting facts about CAI is that it is outsourcing from overseas instead of outsourcing to overseas.

Senator Bushweller asked how many of the 251 positions created would be Delaware residents. Director Levin stated that it is required that fifty percent would be Delaware residents and actually believes that it is currently more than that percentage.

Mr. Riddle asked about the created positions, specifically if CAI should lose a couple of clients – would those jobs be eliminated. Mr. Pennella stated that CAI is designed to build long term IT careers. He stated that CAI works with students and professional hires. The entry level is call center work, answering phone customer support. He stated that CAI has built training into each level such as in the technical IT support. Employees begin with answering questions about laptops, progress to software testing, get certified and then move up to application support. He stated that there is a lot of opportunity for development and training. Mr. Pennella stated that they also bring in professional hires to mentor. He stated that contracts come and go but with this cross training, the jobs remain.

Mr. Sears asked if the employees will start at entry level and be promoted up. Mr. Pennella stated that there will be quite a few but they also have to bring in senior level technology people, a project manager and business analysts.

Mr. Lubin asked if the “student opportunity positions” are exclusive from the 251 number. Mr. Pennella stated that they were and usually those positions are part time with ten to fifteen hours per week because of their studies.

Mr. Riddle asked if there was physical room for expansion at this facility. Mr. Pennella stated that there is room to grow and CAI has first right of refusal on most of the building.

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. Sears made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of a grant in an amount not to exceed Five Hundred

Thousand Dollars (\$500,000) to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including October 23, 2012. Mr. Riddle seconded the motion, which was then adopted by unanimous vote.

Frankfurt Bakery & Sandwich Shop LLC (“Frankfurt” or the “Applicant”) – The Applicant is requesting a grant from the Small Business Credit Initiative Loan Program in the amount of \$50,000. The Applicant proposes to use the funds to purchase a new building in Dover, Delaware (the “Project”).

Mr. Bach presented this request to the Council. He stated that Frankfurt is relocating from its currently leased space to a building one block way that they will be purchasing. He stated that First State Community Loan Fund is providing \$150,000 in financing for the Project and DEDO will match \$50,000 in the form of a participation loan under the State’s Small Business Credit Initiative program.

Mr. Bach stated that the current landlord died and the son inherited the building and wanted to raise the rent. Therefore, the bakery looked for and found a new location.

Mr. Bach stated that DEDO is not going to be servicing this loan. He stated that it is good to be able to get this money out on the street with minimal participation.

Mr. Lubin asked about the co-guarantor. Mr. Bach stated that in his discussions with Mr. Janke, he was informed that the co-guarantor is a relative of his wife’s who has substantial wealth. Mr. Janke was in the military and opened his own bakery in Germany. He then moved to the United States in 1977 and eventually moved to Delaware and opened Frankfurt Bakery in Dover which has been very successful for nearly five years. Mr. Bach stated that it is more than just a bakery; it is also a deli.

Mr. Bach stated that First State Community Bank participates in more high risk lending and looks for as much collateral as possible. He further stated that DEDO will mirror First State’s loan and that DEDO is just purchasing a piece of that loan. He stated that Mr. Janke offered a guarantee so First State naturally took it.

Senator Bushweller asked if there was ample parking on the new location site. Mr. Bach stated that Mr. Janke looked at the situation as being able to secure a facility. It will provide a permanent location for them and he feels the new location will be better as it is in a heavier traffic area.

Mr. Riddle questioned the mechanics of the interest rate. Mr. Smith stated that going into the deal it was at 8.25%. However with the Council’s recommendation for approval today, it will reflect a blended rate of 8.25% for 75% of the loan and for 25% of the loan a rate of 3.25% for an effective rate of 7.25%. The SSBCI participation will save the borrower \$11,000 per year in interest. He stated that a condition of DEDO’s participation is a better or preferred rate for the borrower – it will be a blended rate.

Mrs. Vible questioned the cash flow. She stated that Frankfurt will get rid of the rent but will take over the debt service payments. She stated that the salaries are significantly lower than what they were originally. It was stated that the debt service was actually a little lower than the current debt payments. Mr. Lubin asked Mr. Bach to call Mr. Janke to clarify the salary issue.

Mr. Bach stated that they would like to close this deal soon as the lease is up at the end of October.

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

After duly considering, Mr. Sears made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of this Project under the State Small Business Credit Initiative Program. Mr. Lubin seconded the motion, which was then adopted by unanimous vote.

Executive Session - Mr. Riddle 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 Senator Cook 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. Riddle which was then adopted by unanimous vote.

ADJOURNMENT

The meeting adjourned at 10:55 a.m.

Respectfully submitted,

Lee Porter, Secretary

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 12, 2011 at 9:00 A.M. at the Smyrna Rest Area.