

**COUNCIL ON DEVELOPMENT FINANCE  
(Revised)**

**September 26, 2011  
PUBLIC HEARING 376**

**THOSE PRESENT:**

Mr. Andy Lubin, Chairperson  
Mr. Steve Biener  
Senator Brian Bushweller  
Honorable Nancy Cook  
Mr. Tom Gilligan  
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  
Mr. Jeff Stone  
Mrs. Shannon Clark  
Ms. Nikki Lavoie  
Mrs. Bernice Whaley

**ALSO PRESENT:** Ms. Michele Sloan – Office of Management and Budget; Mr. Larry Windley and Mr. Jeff Dayton of Senator Carper’s Office; Representing Projects: **AMTRAK** – Mr. Thomas Moritz, Mr. Terry Schindler, Mr. Joe McHugh and Mr. Jim Mann; **Fraunhofer USA, Center for Molecular Biotechnology** – Mr. Vidadi Yusibov and Ms. Dale Ervin; **AlphaSense** – Mr. Pengcheng Lu

**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, September 26, 2011.

**OLD BUSINESS:**

Mr. Gilligan made a motion that the minutes of the August 22, 2011 Council on Development Finance meeting be approved as presented. Mr. Sears seconded the motion which was then adopted by unanimous vote.

**NEW BUSINESS:**

Mr. Lubin introduced and welcomed Robert Merritt. Mr. Merritt is the new Director for Capital Resources.

**Capital One** - Director Levin informed the Council that the State has reached an agreement with Capital One. Capital One will be adding 500 new jobs over its current base at ING and HSBC. He stated that Capital One is acquiring ING Direct and HSBC. These new jobs will have average salaries of \$130,000 and higher. Director Levin explained that the proposed jobs are anticipated to be banking jobs. Currently, the proposed incentive is worth \$5.6 million to be paid from the Delaware Strategic Fund. He further stated that because of the salaries, the payback is approximately three years.

**Delaware Economic Development Office (“DEDO”)/Amtrak** – DEDO is requesting a grant from the Delaware Strategic Fund program in the amount of \$500,000. DEDO proposes to use the funds to pay up to fifty percent for the preparation of a site evaluation and conceptual design of an Amtrak Tier II High Speed Trainset Maintenance Facility in Delaware which is being considered by Amtrak. Amtrak currently services its Acela trainsets at maintenance facilities in Boston, New York and Washington. However, these facilities are not capable of handling future maintenance demands (the “Request”). DEDO and Amtrak will be entering into a Memorandum of Understanding (“MOU”) to jointly fund this project.

Mr. Stone presented this request to the Council. Mr. Stone stated that should this facility be located in Delaware, Amtrak will be investing approximately \$100,000,000 and creating 100 jobs. He also stated that Amtrak’s support suppliers are located in Wilmington.

Mr. McHugh of Amtrak stated that Amtrak currently operates two large maintenance and repair facilities with one in Wilmington and one in Bear, and a training facility in Wilmington.

Mr. McHugh stated that he expects the feasibility study to find that the facility should be located in Wilmington. He further stated that Amtrak anticipates growth of the Acela services and of adding high speed trains.

Mr. Shindler of Amtrak indicated that he appreciated all the assistance Amtrak has received from Senator Carper’s office and from DEDO. He stated that he has been involved in a multitude of projects. He stated that there are sister facilities located in Indianapolis and Miami and Amtrak is currently building two new facilities in Los Angeles. Both of these new facilities are being built with stimulus funds.

Representative Scott asked how far the facility in Indianapolis was from the city. Mr. Shindler stated that it is approximately fifteen miles from the city proper of Beach Grove. He further stated that Amtrak likes to stay near a main line.

Mr. Biener asked if the jobs proposed for Delaware would be in addition to those jobs currently in Washington, Boston and New York where the other facilities are located. Mr. Shindler stated that those jobs are service and inspection positions; the jobs in Delaware would be new additional jobs in Delaware and will be heavy maintenance on high speed equipment. Mr. Shindler stated that Amtrak is in a heavy repair cycle right now. He explained that when a trainset is decommissioned to go in for maintenance work in Washington, it is actually removed which requires it to be hooked up to a diesel engine and connected to power cars and finally taken to Wilmington. He also stated that the coach cars stay in Bear for their work, then are moved to Wilmington then taken back to Washington. He explained that all of this is done within six weeks of time. Mr. Shindler stated that by having a facility on the main line, it will eliminate the need to separately move train cars with the diesel engine, for a savings of time and travel cost.

Mr. Biener asked if the company had any concerns that they will find the appropriate talent in the Delaware workforce. Mr. Mann stated that with the previous stimulus expansion, Amtrak added 52 jobs in Bear, Delaware, and were fortunate enough to hire many highly skilled mechanics. Mr. Mann stated that he believes the skill sets are here in Delaware and that the issue will be who Amtrak would be competing against for those mechanics. He further stated that Amtrak has an internal training program.

Senator Bushweller stated that he thought it was a great idea and that he has known of Delaware's great relationship with Amtrak for a long time. He asked about the results of Amtrak's review of other locations, and how Delaware compared with other locations. Mr. Mann stated that when Amtrak looks at ideal locations. They look at terminals where the trains actually end their trips. Ending near a maintenance area makes the operation more efficient. He stated that the Wilmington location makes more sense because they are already working with Wilmington and Bear for heavy maintenance. He further stated that it was Delaware's proactive development of the Wilmington station that convinced them this would be a natural next step. He also stated that Amtrak has had very positive experiences with the Delaware's delegation.

Senator Bushweller asked if there would be any requests to the State for additional funds. Mr. Mann stated that he is sure that Amtrak would want to discuss those options whether it was actually money, training or anything else that may be available. He further stated that he did not think it would be a deal breaker but they would like it located next to their workforce facility. Mr. Mann also stated that they are going to look at their ability to expand in the future.

Mr. Windley of Senator Carper's office thanked Director Levin and the DEDO staff for their work on putting this deal together. He also voiced his appreciation to the Amtrak representatives for their interest in Delaware.

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 a grant in an amount not to exceed Five Hundred Thousand Dollars (\$500,000.00) to be disbursed from the Delaware Strategic Fund, for the Request, contingent upon the approval remaining in effect through and including September 25, 2012. Representative Scott seconded the motion, which was then adopted by unanimous vote.

**Fraunhofer USA, Center for Molecular Biotechnology (“Fraunhofer” or the “Applicant”)** – The Applicant is requesting a grant from the Delaware Strategic Fund program in the amount of \$3,000,000. The Applicant proposes to use the funds to enhance the non-profit’s current technological capabilities and to develop broad application bases for its technology (the “Project”). The facility is located at 9 Innovation Way in Newark, Delaware.

Mrs. Mears presented this request to the Council. Mr. Yusibov stated that this \$3,000,000 request will serve as base funding. He stated that Fraunhofer has gone from nonexistence to a very thriving company. He stated that the research capabilities are very impressive.

Mr. Yusibov stated that when the H1N1 flu came from Mexico, Fraunhofer was contacted to find a vaccine trial. He stated that within twelve weeks, Fraunhofer developed a vaccine and within twelve months, they had completed the trial. He further stated that Fraunhofer continues to work with the Department of Defense and the federal government. He stated that Fraunhofer wants to develop vaccines for developing countries and believes that Fraunhofer has the technology to provide these vaccines and can do so quickly. Fraunhofer intends to be an international hub for the development of these technologies. Mr. Yusibov stated that Fraunhofer has a \$6,000,000 contract with the Brazilian government where they will be building a technology center at some point. He stated that Fraunhofer believes it has reached the stage needed to establish them as a business in the international world.

Mr. Gilligan asked Mr. Yusibov to elaborate on the “in-kind” contributions from the State noted in their financials. Mr. Yusibov stated that the “in-kind” contributions from the State of Delaware are actually direct contributions. He stated that they currently spend \$1 – 1.5 million on animal research. They are working with the University of Delaware which has an animal facility.

Mr. Biener asked if there were any construction projects being considered over the next few years. Mr. Yusibov stated that Fraunhofer is at full capacity at its current building and there have been discussions that another building may be needed but nothing definite as of yet. He stated that they know they will need additional capacity at some point but that this will take some funding. He further stated that they hope to fund this through funds from sources such as Germany and from other companies.

Mr. Biener stated that it is encouraged to use Delaware contractors when necessary and asked if Fraunhofer could possibly use a Delaware contractor instead of the Pennsylvania company that it has used. Mr. Yusibov stated that they had switched from the Pennsylvania contractor to a Delaware company.

Mr. Biener questioned the use of the \$76,000 of compensation to Mr. Thomas Hale. Mr. Yusibov stated that Mr. Hale was basically a very valuable consultant. He stated that Mr. Hale has a vast network of people that he could introduce to Fraunhofer officials which in turn could open up many opportunities. Mr. Biener suggested that Fraunhofer identify this on its financial statements.

Mr. Riddle asked if the DEDO funds would be disbursed over six years and the answer was yes. He also asked if there was a claw-back regarding these funds. Mr. Smith stated that Fraunhofer will have to meet specific performance requirements such as maintain its Delaware operations, employment standards, etc. He further stated that most of the contributions to Fraunhofer are mandated by Bond Bills and that those fundings also require certain performance actions.

Mr. Riddle questioned the source of \$7.2 million of funds. Mr. Yusibov stated those funds came from research grants obtained. He stated that for the \$22,000,000 project, at least eighty percent would come from grants.

Director Levin stated that the State is an equity partner in Fraunhofer and that clearly Fraunhofer's start up has been a huge catalyst in getting the biotech facility up and running. He further stated that the State has invested a lot in Fraunhofer; however, Fraunhofer has also demonstrated its value. He stated that recently DEDO had been working with Intervet, a Delaware company which is owned by Merck, and DEDO has now put Merck in touch with Fraunhofer which could prove beneficial to both companies.

Senator Bushweller asked if by the State being an equity partner, it meant that Delaware has some claim on Fraunhofer's intellectual property. Mr. Smith stated that it was not on intellectual properties but on the royalties coming in.

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, Honorable Cook 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 Three Million Dollars (\$3,000,000) to be disbursed from the Delaware Strategic Fund over six years with annual disbursements in the amount of \$500,000, for the Project, contingent upon the approval remaining in effect through and including September 25, 2012. Representative Scott seconded the motion, which was then adopted by unanimous vote except for Mr. Sears who abstained from the discussion and the voting due to a possible conflict of interest.

**AlphaSense, Inc. ("AlphaSense" or the "Applicant")** - The Applicant is requesting a matching grant from the Delaware Strategic Fund under the Delaware Technical Innovation Program in the amount of \$50,000. AlphaSense will use the funds as a SBIR Phase II bridge grant while working on a Department of Defense project to develop a compact, low cost, handheld sensor for inspecting helicopter gears (the "Project"). The Applicant's business is located at 470 Century Blvd. in Wilmington, Delaware.

Mrs. Clark presented this request to the Council. Dr. Pengcheng stated that AlphaSense, a research and development company, has been in business since 2008. He stated that there are currently five employees. He stated that the Applicant's primary goal is to provide high-grade sensor solutions for military and civilian applications. Dr. Pengcheng stated that AlphaSense has had some very successful projects with the Navy, Army, Air Force, etc.

Dr. Pengcheng stated that AlphaSense is one of three companies which were invited to do a Phase II for its recent Phase I submission regarding the feasibility of using an alternating current potential drop (ACPD) sensor for non-destructive measurements of case depth. He reiterated that this would be bridge funding. Dr. Pengcheng stated that AlphaSense is trying to reach out to some potential customers such as Boeing.

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. Gilligan 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 September 25, 2012. Mr. Sears seconded the motion, which was then adopted by unanimous vote.

**Mill Creek Fire Company** - Mrs. Johnson informed the Council the status of a recent request from the Mill Creek Fire Company (“Mill Creek”). Mill Creek entered into a ninety-nine year lease with the State in 1994 for the use of DEDA owned property adjacent to their current Fire House. Mrs. Johnson stated that the legislature gave DEDA this property several years ago. The lease payment is \$1.00 a year. The current use is for parking, and the lease expires in 2093. The prior lease contained a reversionary interest which would require the lease to immediately terminate if the property ceased to be used as a parking lot for the Fire House. Mill Creek was interested in expanding their Fire House and would need to build over a part of the parking lot. Initially, the financing bank wanted DEDA to remove the reversionary provision altogether. DEDA approved the plans to renovate the Fire House, but has determined that the reversion must remain in the lease. Director Levin stated that even though it is not zoned for commercial, he feels it could be rezoned. Mrs. Johnson stated that Mill Creek had to obtain a variance and that has been approved. She also stated that if the lease were to terminate, DEDA will get benefits of any improvements on the property.

**Polymer Technologies (“Polymer”)** – Polymer received a \$200,000 Delaware Strategic Fund loan on February 23, 1995. Currently, there is an outstanding balance of \$78,514.15 with a maturity date of March 1, 2018. Mr. Smith stated that DEDO has been contacted by M&T Bank which has requested that DEDA subordinate the existing DEDA lien amount of \$200M to an M&T Bank lien amount of 1,364,181. He stated he was informed that the bank is in the process of refinancing an existing real estate loan to Polymer and that the bank will be receiving title insurance on the first lien amount and requires the subordination of the DEDA lien. He also stated that he was told that the bank recently received an appraisal on the 420 Corporate Blvd., Newark, Delaware operations in the amount of \$3.6MM as of June 8, 2011. Mr. Smith stated he was told that the closing for this refinancing had been scheduled for the week of September 26<sup>th</sup>.

After some discussion, it was decided that DEDO should inform the bank that DEDO is not interested in subordinating the loan but rather that the loan be paid off. Mr. Smith will inform the bank of this decision and offer to bring the matter back before the Council at its October 24<sup>th</sup> CDF meeting.

**Small Business Credit Initiative Loan Program** - Mr. Bach informed the Council that First State Community Loan will be utilizing the Small Business Credit Initiative loan program shortly. He stated that it is anticipated that the first project will be presented to the Council at its October meeting.

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**DEDA Financial Statements** – Mr. Smith informed the Council that the RFP for DEDA’s 2011 audit and financial statements has been posted on the State Auditor’s website.

**ADJOURNMENT**

The meeting adjourned at 10:05 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, October 24, 2011 at 9:00 A.M. at Buena Vista in New Castle, Delaware.

**The minutes were revised to reflect that DEDO and Amtrak will be entering into a Memorandum of Understanding (“MOU”) to jointly fund this project.**

