

COUNCIL ON DEVELOPMENT FINANCE

February 27, 2012
PUBLIC HEARING 380

THOSE PRESENT:

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

Director Alan Levin
Mrs. Rachael Mears
Mr. Stephen Bach
Mr. Gary Smith
Mrs. Lee Porter
Ms. Beverly Ennis
Ann Marie Johnson, DAG
Mrs. Bernice Whaley
Mr. Tim McLaughlin
Mrs. Melody Booker
Mr. Ken Anderson
Mr. Joe Zilcosky
Ms. Nikki Lavoie

ALSO PRESENT: Ms. Michele Sloan – Office of Management and Budget; Mr. Paul Sample; Ms. Amy Cherry – WDEL; Projects: **University of Delaware Small Business Technology Development Center (“SBTDC”)** – Mr. Clinton Tymes and Mrs. Barbara Necarsulmer; **Flow Smart, Inc.** – Mr. Robert Hollenbeck and Mr. Donald Hollenbeck; **33 West, LLC** – Mr. Brandon Pelton, Ms. Lynne Schaefer; **Sparrow Holdings, LLC** – Mr. Michael D. Skipper; **Speakman Company** – Mr. Rob Cook; **All Metals Fabricators, Inc.** – Mr. Kevin Denny

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 Chairman Lubin, on Monday, February 27, 2012.

OLD BUSINESS:

Mr. Biener made a motion that the minutes of the December 12, 2011 and the January 23, 2012 Council on Development Finance meetings be approved as presented. Mrs. Vible seconded the motion which was then adopted by unanimous vote.

NEW BUSINESS:

University of Delaware Small Business Technology Development Center (“SBTDC” or the “Applicant”) - The Applicant is requesting a grant from the Delaware Strategic Fund in the amount of \$400,000. The grant will provide for ongoing Business Advisory Services, Training and Educational Programs and Information and Research services (the “Project”). The SBTDC is a partnership program of the U.S. Small Business Administration, the Delaware Economic Development Office (DEDO), the University of Delaware, Delaware State University and the private sector to provide management assistance to Delaware's small business community.

Mrs. Mears presented this request to the Council. Mr. Tymes stated that through the SBTDC's assistance and services, 315 jobs have been created during the last year and 170 jobs have been retrained. He stated that there have been 91 training programs and they have worked with 631 clients throughout the State.

Mr. Tymes described the Procurement Technical Assistance Program (“PTAC”) which is a specialty program offered by SBTDC. He further stated that this program helps Delaware businesses identify and bid on contracts with federal, state and local governments and prime contractors. Mr. Tymes stated that there was \$41,000,000 in contracts that Delaware businesses received through the assistance of the PTAC program.

Mr. Tymes stated that by federal law, the SBTDC must go through a financial review by the SBA every two years and this was just completed. Mrs. Necarsulmer stated that the SBTDC is introducing some new programs to help businesses with efforts to enhance their revenue.

Mr. Riddle asked for an explanation of the “waived indirect” fee. Mrs. Necarsulmer explained that it was a servicing fee from the federal granting authority which is negotiable and which goes toward the delivery of services.

Mrs. Vible asked if they had seen a change in the trend of the types of businesses that come to the SBTDC for assistance during these challenging economic times. She asked if they saw an increase in startups or rather in businesses seeking assistance to maintain their operations. Mrs. Necarsulmer responded that during an economic downturn, there is an initial increase in interest in start-up businesses, but that this interest fades as the economy improves. Mrs. Necarsulmer further indicated that most of the businesses that sought out their services were existing businesses, and that larger businesses were increasingly seeking out their help. The SBTDC assists the companies to get them ready for when the economy does turn around. Mr. Anderson stated that in DEDO's review of the SBTDC's performance, this is a major area of scrutiny. Mr. Tymes stated that one of

the important functions of the SBTDC is looking at its clients and making sure they are going to make good business decisions. He stated that this may result in clients being directed to other offices such as SCORE and DEDO.

Mr. Tymes stated that the SBTDC has added an assessment component to its services whereby it is trying to match individuals with the programs appropriate with their particular stage of development.

Mr. Sears asked if banks were still referring people to the SBTDC. Mr. Tymes stated that a lot of the referrals do come from banks. He further stated that each member of the SBTDC staff is assigned to a bank as a bank liaison meeting with commercial lenders.

Mr. Smith reminded the Council that funding for the SBTDC is mandated by the Budget Bill. The 2012 Budget Bill requires the interest earnings of the Delaware Strategic Fund be used for four specific "buckets" with the first bucket being used for general DEDO operating expenses and the second bucket of \$400,000 being used for the Small Business Development Center. Mr. Smith informed the Council that there should be sufficient interest earnings for the first bucket but not for the SBTDC bucket.

Senator Bushweller asked if it was possible to obtain SBTDC job creation numbers and stated that he understood that the SBTDC is hesitant to identify the names of specific companies who have sought SBTDC services. Mr. Tymes stated that the SBTDC cannot release the names of specific companies because of privacy issues, and that the confidentiality of clients is governed by federal law. DEDO does have access to that information. Mr. Anderson indicated that DEDO didn't have the level of detail that it would like but that it is privy to certain information. Mr. Tymes stated that while all the specific information cannot be released to DEDO, the SBA does have access to that information and does verify it.

Senator Bushweller asked if there were any claw back requirements. Mr. Smith stated that DEDO follows what the legislature dictates.

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) based solely on the information supplied by the Applicant and the representations that it has made, the Applicant is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code") and will use no portion of the Grant funds in an "unrelated trade or business," as defined in Section 513 of the Code; accordingly, the Applicant is an "exempt person" within the meaning of 29 Del. C. § 5052(7); (ii) the Grant and the Project will effectuate the financing of facilities and activities of an exempt person in order to contribute to the prosperity, health or general welfare of the citizens of the State. Representative Scott 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 Four Hundred Thousand Dollars (\$400,000) to be disbursed from the Delaware Strategic Fund, for the Project, contingent upon the approval for the grant remaining in effect through and including February 26, 2013. Senator Cook seconded the motion, which was then adopted by unanimous vote.

Flow Smart, Inc. (“Flow Smart” or the “Applicant” or “Nesbitt Partners, LLC”) – The Applicant is requesting a grant from the Delaware Strategic Fund in the amount of \$197,000. The Applicant proposes to use the funds to help offset planned capital expenditures on new manufacturing equipment and on its new building at 213 Nesbitt Drive in Seaford, Delaware (the “Project”).

Nesbitt Partners, LLC – The Applicant is requesting a loan from the State Small Business Credit Initiative Loan Program in the amount of \$1,000,000. The Applicant proposes to use the funds to purchase a building and expand its operations in Seaford, Delaware (the “Project”).

Mrs. Booker presented this request to the Council. Due to a possible conflict of interest, Mr. Riddle abstained from the discussion and voting on the Flow Smart, Inc. project. Mrs. Booker stated that along with BASF, Orient Chemical, there are Craig Technologies and Linus Tooling in the Seaford Industrial Park. Craig and Linus are owned by Mr. Don and Mr. Robert Hollenback who are before the Council today regarding Flow Smart. She stated that Craig and Linus are very successful. Because of this success and the continued diversification, they have approximately 85 employees now and hope to employ an additional 57 full time employees. They have currently outgrown their current facility and will be purchasing the “Century Windows” building located at 212 Nesbitt Drive, also in the Seaford Industrial Park.

Mr. Rob Hollenback stated that Flow Smart is a supplier of elastomeric products of high quality core gasket products and “O rings” used mostly in food processing and pharmaceutical businesses. He stated that over the last four years, product lines have expanded and they are now expanding the existing product lines in relationship to the pharmaceutical industry. This expansion will help Flow Smart meet the needs of its customers. Flow Smart will be purchasing machinery and equipment. Mr. Hollenback stated that with the expansion of the “clean rooms” it will allow them to manufacture hose for the medical industry. Mr. Hollenback stated that they can provide a rapid response to their clients and can provide same or next day delivery.

Mr. Sears asked how the product was sold. Mr. Rob Hollenback stated that the company is not set up to sell directly to pharmaceutical companies; they sell through specialized distributors that have the technical background. He stated that they have over 300 distributors between the US and overseas. He stated that thirty percent of their business is overseas. He further stated that sixty percent of the business is pharmaceutical. Mr. Sears asked if there were any major customers. Mr. Rob Hollenback stated that there

were not; Primo Cheese is one of their biggest customers which consists of less than ten percent.

Director Levin stated that he has visited this operation and found it to be a remarkable company. He commended Don and Rob Hollenback for what they have accomplished. He further stated that this facility that they will be buying was the facility for the former Century Glass company with which DEDO had a history. Director Levin stated that the quality of the hose they are manufacturing is outstanding. He stated this project will be a huge shot in the arm for the City of Seaford which is greatly needed.

Mr. Bach stated there are two financial requests. A \$92,100 portion of the Delaware Strategic Fund grant will be reimbursement for capital investments, disbursed upon the receipt of qualified expenditure receipts and a \$104,900 portion of the Delaware Strategic Fund grant will be performance, based on PIT. This portion will be disbursed in three annual draws as they reach specific employment benchmarks. He stated the second request is a participation with Community Bank Delaware. Community Bank Delaware will be providing a \$1.25 million (50% of the project) first mortgage at 4.5% fixed for three years. DEDO is proposing that DEDA purchase a 100% loan participation from Community Bank in the amount of \$1 million at a 3.25% fixed rate interest with interest only payments being made and the loan secured by a second mortgage. DEDA's participation is equal to (40%) of the project. The remaining 10% (\$250,000) will be funded by borrower's equity. DEDO expects the participation to be paid off within nine months at which at the time it will be converted into a Small Business Administration 504 debenture through Delaware Community Development Corporation (DCDC) as the fit-out of the facility will be complete.

Mr. Biener asked about the difference in rates between DEDO and the bank. Mr. Bach stated that when you take two loans together, you get a blended rate and that's the goal of the SSBCI program.

Mrs. Vible asked what the criteria was for the buy out at the end of the day for DEDO. Mr. Bach stated that DEDO does not have any particular criteria as it is not a typical SBA loan. He further stated that once the company receives a Certificate of Occupancy and is in a position to close because the company is required to have everything completed, the loan is closed and a month later is when the actual funds are distributed; therefore, carrying some risk.

Mr. Rob Hollenback stated that one reason he and Donald Hollenback became partners what because they were trying to diversify their companies and Flow Smart was an attractive business to them because it has an ongoing product line.

Mr. Lubin asked about the product and Mr. Rob Hollenback stated that they are going to manufacture high purity hose tubing which is an area where there is competition. Mr. Rob Hollenback stated that he feels they are at an advantage with their current product

line of “o” rings and seals. He further stated that they have a contract with Merck which should start shortly. Mr. Rob Hollenback stated that the company will be fully certified.

Chairman 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 One Hundred Ninety-Seven Thousand Dollars (\$197,000) to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including February 26, 2013. Mr. Biener seconded the motion, which was then adopted by unanimous vote.

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. Biener seconded the motion, which was then adopted by unanimous vote.

33 West, LLC (“33 West” or the “Applicant”) - The Applicant is requesting a loan from the Small Business Credit Initiative Loan Program in the amount of no more than \$40,000. The Applicant proposes to use the funds to make improvements in his building in Dover, Delaware (the “Project”).

Mr. Zilcosky presented this request to the Council. Mr. Pelton stated that his restaurant is located in a prime location in historical downtown Dover. He stated that he will revitalize the restaurant, will expand the seating capacity by twenty percent, put in a kitchen floor and extend the bar. He stated that he is hoping to accomplish this with financial assistance through the SSBCI loan program.

Mr. Pelton stated that the restaurant gets busy at lunchtime and that the evening business is starting to increase. He stated that he has several new ideas such as adding micro

brews, enticing the younger crowd, and bringing a “city feel” to it food wise. He stated that the building is old and kind of run down and that it is time to upgrade the building. Mr. Pelton stated that he anticipates on adding eight employees consisting of three – four full time and some part time help. Some of his other plans are to increase his hours of being open, offering Sunday brunch, jazz on Thursday and Fridays – making it a place to hang out.

Mrs. Vible asked who owned the building. Mr. Pelton stated that Mike Harrington, a local realtor, owns the building. Mr. Pelton stated that the space next door is leased, the upstairs is currently vacant and he has thought about buying the building. He stated that he never likes to overextend himself and is cautious. He further stated that he is in the middle of the second of three, five year options.

Mrs. Schaefer stated that even during the recession, Mr. Pelton has done extremely well, that he has proven that cash flow is good and that he and his wife both have impeccable credit. She further stated that Mr. Pelton’s wife is willing to guarantee the loan.

Mr. Biener asked about the “three year note” and Mr. Bach responded that Dover Federal Credit Union has agreed to buy DEDA out in three years.

Mr. Lubin encouraged Mr. Pelton to negotiate with the landlord sooner rather than later. Senator Bushweller complimented Mr. Pelton and expressed his support of the revitalization of down town Dover. He also mentioned that 33 West also does catering.

Mrs. Schaefer stated that this is the first SSBCI project for the Dover Federal Credit Union.

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

After duly considering, Representative Scott 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. Senator Bushweller seconded the motion, which was then adopted by unanimous vote.

Sparrow Holdings, LLC (“Sparrow” or the “Applicant”) – The Applicant is requesting a loan from the State Small Business Credit Initiative Loan Program in the amount of \$387,000. The Applicant proposes to use the funds to establish its business in Millsboro, Delaware (the “Project”).

Mr. Bach presented this request to the Council. He stated that Sparrow plans to purchase a half acre plot of land in Millsboro and lease it to GHMDELMOTO, LLC which will do business as Castrol Premium Lube Express. He further explained that Sparrow will be funded with a \$645,000 permanent Small Business Administration 504 construction loan and the Delaware Economic Development Office will fully participate on the \$387,000

bridge loan which will be paid off by the SBA financing. Mr. Bach stated that the interest rate will be 3.25 with the intent to pass on the lower rate to the borrower.

Mr. Skipper stated that even though this is a “start-up”, which usually makes you nervous, he is comfortable with the deal as the husband and wife are putting in \$300,000 of their own cash.

In response to Mr. Riddle’s inquiry, Mr. Skipper stated that this facility is located between Georgetown and Millsboro on the corner of Route 113. He stated that the utilities are on the site, they have the required DelDOT approvals, and the appraisal was for approximately \$1.2 million. He further stated that the 504 buyout would occur within nine to ten months.

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

After duly considering, Mr. Gilligan 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. Sears seconded the motion, which was then adopted by unanimous vote.

Speakman Company (“Speakman” or the “Applicant”) – The Applicant is requesting a grant from the Delaware Strategic Fund in the amount of \$200,000. The Applicant proposes to use the funds to modernize its facility in Wilmington, Delaware and expand its operations (the “Project”).

Mr. Bach presented this request to the Council. He stated that the \$200,000 total grant is a \$45,000 cap ex grant and a \$155,000 performance grant. Specifically, the \$45,000 grant will help offset \$1.5 million in capital expenditures and the \$155,000 grant will go towards the creation of 50 new jobs. Mr. Bach stated that there are currently 103 full-time employees.

Mr. Rob Cook stated that in 2001, the company branched out into three new product lines including shower products, safety eye wash products and other plumbing solutions products. Mr. Cook stated that because of the many competitors, Speakman had to initiate an aggressive growth program. He stated that Speakman is not geographically confined to the tri-state area. He stated Speakman’s products are sold in all the U.S. states and fifteen countries including Beijing. Mr. Cook stated that he believes Speakman has a very strong brand. He further stated revenues were up from last year and they expect to do that again this year with hopes of doubling the size of the company within four years.

Mr. Sears complimented the company for its years of quality products. Mr. Cook stated they have over 2,000 product items.

Director Levin stated that he has visited the facility and reviewed the business plan. He stated that Speakman is a great Delaware institution and the company has been taken to a whole new level. He stated he feels this company will be around for another 175 years and it will be the result of what they do in the next five years.

Mr. Riddle asked for clarification on the "Shadow Stock Plan". Mr. Cook replied that it was a long term stock plan for key employees where instead of giving the employees common stock, they give them key stock.

Mrs. Vible asked how the grant would be funded. Director Levin stated it would be over a three year period and would be based on the creation of employees.

It was asked if the facility was suitable for expansion. Mr. Cook stated that Speakman could comfortably ship twice and maybe three times the amount of product that they are currently shipping. He stated that they are looking to modernize their warehouse and bring it up to 2012 standards. He stated that they are a high inventory based company. Mr. Cook stated that Speakman will use this grant to modernize the facility which includes the purchase of software and a scanner. He stated that this modernization is necessary to compete with the "Koehler's" of the world.

Mr. Gilligan asked for an explanation on the 2011 internal line item – extraordinary loss. Mr. Cook stated that this was known as "Riverview" which is a property that the company has owned for years and has been trying to sell. This property is located near the 30th Street facility, near the Plummer Center.

Chairman 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 grant in an amount not to exceed Two Hundred Thousand Dollars (\$200,000) to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including February

26, 2013. Senator Cook seconded the motion, which was then adopted by unanimous vote.

All Metals Fabricators, Inc. (“All Metals” or the “Applicant”) – The Applicant is requesting a grant from the Delaware Strategic Fund in the amount of \$110,000. The Applicant proposes to use the funds to purchase new machinery and equipment and a facility located at 619 Lambson Lane, New Castle, Delaware (the “Project”).

Mrs. Clark presented this request to the Council. Mr. Denny stated that All Metals is a welding and machine shop located in a 12,000 square foot facility in Elsmere. He stated that the company was started in 1967. All Metals has grown from sixteen to thirty-three employees. He anticipates having forty employees by the end of 2012.

Mr. Denny stated that All Metals designs and manufactures material handling equipment for the pharmaceutical, food and chemical industries, in conjunction with sheet metal parts and steel fabricators for the corrugated paper industry. He stated the new growth is in precious metals and rail car components to accommodate a new customer which is the shipyard in Philadelphia. He further stated that sales have grown from \$3 million in FY 2007 to \$5.2 million in FY 2011 and he expects to exceed \$6 million this year.

Mr. Denny stated that it has taken a year to find an adequate facility for their expansion. He stated that currently they are making improvements to the facility and the equipment foundation was being poured today. He stated the electrical upgrades were currently taking place and the crane installation is expected to start this week. Mr. Denny stated that the current schedule has the moving completed by August 31st.

Chairman 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 One Hundred

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Ten Thousand Dollars (\$110,000) to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including February 26, 2013. Representative Scott seconded the motion, which was then adopted by unanimous vote.

Delaware Strategic Fund Regulations - - Mrs. Onorato stated that DEDO would be presenting revised regulations for next month's review.

ADJOURNMENT

The meeting adjourned at 10:40 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, March 26, 2012 at 9:00 A.M. at Buena Vista.