

**COUNCIL ON DEVELOPMENT FINANCE**  
**June 25, 2012**

**PUBLIC HEARING 384**

**THOSE PRESENT:**

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

Director Alan Levin  
Mrs. Rachael Mears  
Mr. Stephen Bach  
Mr. Gary Smith  
Ms. Cassie Robbins  
Mrs. Lee Porter  
Ms. Beverly Ennis  
Elio Battista, DAG  
Ann Marie Johnson, DAG, via Phone  
Mr. Jeff Stone  
Mrs. Bernice Whaley  
Mr. Tim McLaughlin  
Mrs. Shannon Clark  
Ms. Patty Cannon  
Ms. Nikki Lavoie  
Mr. Joe Zilcosky

**ALSO PRESENT:** Ms. Courtney Stewart and Ms. Michelle Sloan – Office of Management and Budget; Ms. Cori Nutoli, the *News Journal*; Mr. James F. Jones, DEMEP; **Kraft Foods Group, Inc.** – Honorable Carleton E. Carey, Sr., Mayor, City of Dover, Mr. Justin Cressler, Mr. Dan Breen of Grant Thornton; **SIMM Associates, Inc.** – Ms. Carolina Albert, Mr. Greg Crump, Horty & Horty, Mr. Art Lodge, Applied Bank; **Bayard Pharmacy, LLC** – Mr. Erik Mabus, Ms. Jenny Mabus, Mrs. Lynne Schaefer and Ms. Gaibriella Bell of Dover Federal Credit Union; **St. Francis Hospital** – Ms. Julie A. Hester and Mr. R. Taylor McCormick; Ms. Courtney Stewart and Michele Sloan of OMB, Ms. Paula Campbell, Ms. Grace Glennan, Mr. John Witmer, Mr. Bill Gilligan

**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, June 25, 2012.

**OLD BUSINESS:**

Mr. Biener made a motion that the minutes of the May 21, 2012 Council on Development Finance meeting be approved as presented. Mr. Riddle seconded the motion which was then adopted by unanimous vote.

**NEW BUSINESS:**

Governor Markell presented an award to the family of Thomas Gilligan. He expressed his appreciation of the outstanding commitment and service of Mr. Gilligan to the Delaware Economic Development Office and the Council on Development Finance. Director Levin also expressed his sadness and appreciation for Mr. Gilligan's dedication, knowledge and never ending willingness to help. He stated that Mr. Gilligan had left a lasting footprint on the Council.

**Kraft Foods Group, Inc. ("Kraft" or the "Applicant")** – The Applicant is requesting a grant from the Delaware Strategic Fund program in an amount up to \$456,000. The Applicant proposes to use the funds for the purchase and installation of new packaging equipment for its facility located in Dover, Delaware (the "Project").

Mr. Stone presented this request to the Council. He stated that Kraft received financial assistance in February 2008. He also stated that Delaware has a long relationship with Kraft. Kraft proposes to bring a new line to Delaware. Mr. Stone stated that Kraft anticipates retaining the current workforce and adding 29 new jobs by next year. He added that Kraft will invest \$10,000,000 in equipment and anticipates future expansion.

Mr. Cressler stated that Grant Thornton has assisted Kraft in its expansion efforts. Mr. Cressler gave a presentation to the Council. He stated that Kraft has a number of products with which they share the number one position, second only to Nestle in terms of total revenue. Twelve of their brands have revenue of over a \$1 billion dollars. He added that by splitting into two organizations, Kraft will have a portion of the company in Dover. This transition will take place before the end of the year. Mr. Cressler stated that Kraft has 48 years of excellence.

Mr. Cressler stated the facility was constructed in 1962 and went into business in 1964 with the consolidation of four facilities – dry pack, desserts, stove top and powdered beverages. They have 535 employees today and is the third largest company in Dover, next to the City of Dover and the Dover Air Force.

Mr. Cressler stated Kraft has always and will continue to participate in the community. The facility is 1,000,000 square feet in size and sits on 17 acres. He stated that they take pride in safety and sustainability performance. He stated that this expansion is called the "Regular Kool Aid Project". He stated that this is the kool aid that we drank as children and now it has been rebranded under a brand new name. He stated the new equipment they will be purchasing will cost \$10,000,000. He further stated that it is Kraft's intention to start this expansion in the fourth quarter of this year and being prepared to do

business in the first quarter of January 2013. He stated that Kraft plans to hire 29 employees in the fourth quarter of 2013. Mr. Cressler stated that growth is a critical driver to future success.

Mr. Riddle stated that it was his understanding that this expansion is not a physical expansion of the building even though there is ample room to expand. He asked what percentage of floor space would still be available. Mr. Cressler stated that this expansion is actually a repurposing of an area that is in use.

Mr. Biener asked if corporate headquarters had signed off on this expansion and was told that it had been.

Senator Bushweller stated that three members of the Council have a close connection with Dover and with Kraft. He stated that over the past twenty years, Dover has experienced business closures and the loss of jobs. He added that this is a great commitment to Dover.

Mr. Cressler stated that Kraft supports the community, one example being its annual commitment to the African American celebration.

Mayor Carey stated that the City of Dover strongly supports this expansion and is thrilled with the jobs commitment and the continued operation of the plant.

Director Levin stated that this project was originally going to be on the agenda two months ago but was taken off because DEDO and Kraft were in negotiations and the administration was in negotiations with the local electric cooperatives. As a result, there is a MOU between Kraft and the electric company, which will lower the cost of electric on the commercial side of ten percent.

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, 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 Fifty-Six Thousand Dollars (\$456,000) to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including June 24, 2013. Senator Bushweller seconded the motion, which was then adopted by unanimous vote.

**Bayard Pharmacy, LLC (“Bayard” or the “Applicant”)** – The Applicant is requesting a participation loan in the amount of \$55,675 from the State Small Business Credit Initiative Loan Program in conjunction with Dover Federal Credit Union. The Applicant proposes to use the funds to purchase inventory and for start-up expenses related to the opening of its pharmacy in Dover, Delaware (the “Project”).

Mr. Zilcosky presented this request to the Council. He stated that this pharmacy will be located at the former Bayard Hotel on the corner of Governor’s Avenue and Loockerman Street in Dover.

Mr. Zilcosky stated that Mr. Mabus has twenty-five years of experience in managing twenty-one pharmacies including Wal-Mart and Walgreens.

Mr. Mabus stated that the pharmacy will be the anchor store in this building. He stated that when he moved here nine years ago he wondered why there wasn’t a pharmacy in downtown Dover. He further stated that he believes this year seems like the perfect opportunity to open this pharmacy. He stated this location will be convenient for a number of people to walk to the pharmacy such as from Wesley College where most of the students don’t have cars.

Mrs. Schaefer stated that she believes this is a good fit for downtown Dover.

Senator Bushweller asked Mr. Mabus if the pharmacy would have an affiliation with a national chain. Mr. Mabus stated that Bayard Pharmacy will be a completely independent pharmacy. He added that the wholesaler they will be using is because they will be getting reduced prices on the drugs.

Senator Bushweller stated that this is the third independent pharmacy that he has heard of over the past six months and he was curious to why. Mr. Mabus stated that he believes it’s because with the large chains, the shareholders are not seeing profits, they are reducing payrolls in stores and it is more difficult running a pharmacy now. Mr. Mabus stated that the independent pharmacies will be driving down the payroll and they will be offering closer relationships with customers.

Senator Bushweller asked about the parking for this pharmacy. Mr. Mabus stated that Bayard Pharmacy will have 48 parking spots which will be under the building. He stated there will also be some street parking and that the Revitalization Project on North Street will create parking.

Director Levin stated that he thinks the Applicant is 100% right and there are opportunities for independents. He further stated that his only concern is that Mr. Mabus focuses entirely on the pharmacy. Most of the chain drug stores concentrate on things such as what is the profit center in the front – chips, etc. Director Levin stated if it is going to be all pharmacy, he will be able to compete because everyone shares the same price for the drugs. He suggested that they focus on service. The pharmacy will not be open on Sunday.

Mr. Mabus stated that he wants to give back to the community and therefore for every prescription filled, a small percentage will be given to local Dover charities.

Mrs. Vible asked how if the chain pharmacies don't want express scripts, how will Bayard be able to do that and make a profit. Mr. Mabus stated that they are able to do it because the chain pharmacies don't make as much profit as they like but Bayard will accept any profit they can make which is better than making no profit at all. Mrs. Vible asked about mail order prescriptions. Mr. Mabus stated that it does impact their business but pharmacies are allowed to offer that service but most people prefer to come in and talk to the pharmacists.

Mr. Biener asked about employment plans. Mr. Mabus stated that they will start with two to three employees and as they grow, he hopes to increase to ten employees.

Mr. Riddle asked about the building. Mr. Mabus stated that it will be an apartment complex with 48 apartments above. He stated the construction is under way. He further stated that they have been told that they should be able to be in the building by the end of September. He stated that if that holds true, they anticipate opening their store in the beginning of November.

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

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

**St. Francis Hospital (“St. Francis” or the “Applicant”)** – The Applicant is requesting a term modification to its existing \$4,000,000 Delaware Strategic Fund loan to allow St. Francis to develop the Program of All-Inclusive Care for the Elderly at the Delaware Riverfront in Wilmington, Delaware (the “Request”).

Mrs. Vible recused herself from discussion and voting on this Project. Mr. Riddle stated that he wanted the minutes to reflect that he is involved with Nanticoke Memorial Hospital which is mentioned in DEDO's staff memo for St. Francis.

Mr. Smith presented this request to the Council. He stated that St. Francis has undertaken a major new initiative entitled, "The Program of All-Inclusive Care for the Elderly (PACE). He explained that PACE is a way to help individuals to help Medicare/Medicaid recipients to stay at home instead of in a nursing home which most individuals prefer to stay in their own residence.

Mr. Smith stated that the location of new facility is at The 1000 Building located at 1000-1072 Justison Street at the Riverfront in Wilmington, Delaware. The facility will be able to house 200 residents. He further stated that the break even number is 110 for the facility. The facility will be providing all the services that nursing homes can provide. Mr. Smith stated that this program does require a large capital investment by St. Francis of \$5,000,000 and obviously in its current financial situation, this PACE program will have a significant impact on its financials. St. Francis is projecting that the current employment of 957 will increase to 1281 with this expansion.

Mr. Smith stated that the current DSF loan is guaranteed by Catholic Health East ("CHE") which is very strong financially. He stated that DEDO does not believe that its loan is in any jeopardy because of CHE's guarantee. Standard & Poors has given CHE an A rating.

Ms. Hester stated that the PACE program is a very attractive program and is geared for chronically ill people that would otherwise need long standing care. She stated that the difference between PACE and the nursing home is that St. Francis virtually becomes an insurance company. She stated that when a patient comes into PACE, St. Francis will decide if that person needs hospice, the level of nursing care, etc. St. Francis then follows through and the person is enrolled in the center and are cared for by that team.

Ms. Hester stated that CHE is the biggest provider of PACE in the nation. Mr. Riddle stated that it is his understanding that PACE is a new program to Delaware but not a new program nationally. Mr. Smith stated that PACE is a part of the all inclusive health care law that was passed. He stated it is the intention to lower cost of Medicare and Medicaid so that they wouldn't have to look at nursing homes.

Director Levin stated that this is a program that has been in place in Pennsylvania for about 15 years. He further stated that the Pennsylvania lottery also benefits senior citizens.

Mr. Biener asked what kind of margin was there for the first two years and it was stated there was none. It was stated that when they are fully operational, they should have a 78% margin and that it would take approximately 44 months before they break even.

Ms. Hester stated that they are undertaking \$4.5 million for renovations and equipment which should be done by September of this year. She stated they expect to have start up costs of about \$1,000,000. It was stated that even though there is a lot of debt

outstanding, it is at a low interest rate. They anticipate employment increasing by 324 employees over the next five years; including PACE employees, physicians, nurses, etc.

Representative Scott asked why the reimbursement rate is significantly less than for other providers. Ms. Hester stated that the efforts of the congressional delegation and Delaware legislators have required states to file an amendment to state health plan. This plan was put into play in June 2012 and St. Francis has received a \$7,000,000 payment. It was added that they expect \$1.4 million from Medicaid.

St. Francis is requesting a two year forbearance of the existing Delaware Strategic Fund loan. DEDO is recommending a 16 month forbearance.

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

After consideration, Senator Cook made a motion that the Council recommend to Mr. Alan Levin, Chairperson of The Delaware Economic Development Authority, approval of the Request to amend the terms of the current loan documents to reflect a sixteen month principal payment forbearance period, and with all other covenants remaining in place, contingent upon the approval remaining in effect through and including June 24, 2013. Representative Scott seconded the motion, which was then adopted by unanimous vote except for Mrs. Vible who abstained from voting due to a possible conflict of interest.

**SIMM Associates, Inc. (“SIMM” or the “Applicant”)** – The Applicant is requesting a direct loan in the amount of \$500,000 from the State Small Business Credit Initiative Loan Program in conjunction with Applied Bank. The Applicant proposes to use the funds to refinance its existing debt to continue operations at its facility on Pencader Drive in Newark, Delaware (the “Project”).

Mrs. Clark presented this request to the Council. She stated that the company started in 1991 and currently has 161 employees. Ms. Albert stated that the company provides its clients with accounts receivable ad collection services. They do student loans, credit cards and have signed new contracts in the last couple of weeks which is why they project hiring new employees.

Mr. Bach stated that currently SIMM has a loan with M&T. SIMM is working with Applied Bank who will take out the existing M&T mortgage loan in the amount of \$3,746,000 which will be secured by a first titled insured mortgage on the commercial real estate located at 800 Pencader Drive. This facility will be senior to an existing \$1,500,000 Delaware Development Corporation SBA 504 mortgage, of which the balance is \$1,285,000. The second facility would be a \$1,400,000 SBA guaranteed 7(a) term loan which is a refinancing of an existing M&T secured line of credit of \$1,890,000. The 7(a) loan will be secured by the residential real estate of the principals as well as any other available personal collateral in the event of a shortfall. To compliment the gap, Applied Bank has requested a \$500,000 subordinated term loan from the State Small

Business Credit Initiative fund. Applied is also extending a \$250,000 demand line of credit secured by accounts receivable subject to an 80% advance rate. Mr. Bach stated that this loan is structured differently than the typical SSBCIs.

Mr. Bach stated that this loan is a Note fully amortized over five years. Mr. Riddle asked how the \$250,000 working capital and DEDO's position were going to be secured. Mr. Bach stated the \$250,000 working capital is collateralized by receivables and a UCC on all business assets; the \$500,000 is secured by personal guarantees and the SBA 7(a) is going to take those positions, so DEDO will have a third position.

Mr. Biener asked if there had been any compliance issues. Ms. Albert stated the company has an attorney and the company is ISO compliant. She added that SIMM is probably one of the largest collection agencies around.

Mr. Riddle asked when they plan on closing. Mr. Lodge stated that this approval was needed and now everything will be submitted and they anticipate a settlement within four to six weeks. He added that this approval was required before they could go to the SBA.

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

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

**Delaware Access Program (the "Program")** – DEDO is requesting approval for transferring \$240,000 of Delaware Strategic Funds to the Master Access Reserve Account (the "Request"). Mr. Bach stated that the Access program has been very successful. WSFS is the largest participant. The Program has all but run out of funds which is due to the success of the Program. He stated that PNC holds a balance and First State Community Bank is also a participant. He stated that WSFS is the real driver of this Program.

Mr. Bach stated that DEDO is recommending that \$240,000 be transferred into the Delaware Access Program account. Mrs. Mears stated that there are two drivers that have increased the activity. New banks have been sought by DEDO and direct marketing efforts and SSBCI does tie into Access Fund which makes applicants more incentivized to use the Program.

Representative Scott asked why the request was for \$240,000 instead of \$480,000 to avoid having to come back in six months. Mr. Bach stated that DEDO wants to monitor the activity.

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

After duly considering, Mr. Riddle made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of the Request, contingent upon the approval remaining in effect through and including June 24, 2013. Honorable Cook seconded the motion, which was then adopted by unanimous vote.

**Executive Session** - Mr. Biener 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 Representative Scott which was then adopted by unanimous vote.

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

**ADJOURNMENT**

The meeting adjourned at 10:35 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, July 23, 2012 at 9:00 A.M. at Buena Vista.