

COUNCIL ON DEVELOPMENT FINANCE
May 19, 2014
PUBLIC HEARING 403

THOSE PRESENT:

Mr. Andy Lubin, Chairperson
Senator Brian Bushweller
Honorable Nancy Cook
Mr. Richard Rowland
Mr. Fred Sears
Mr. Jack Riddle
Representative Darryl Scott

Director Alan Levin
Mrs. Bernice Whaley
Mrs. Rachael Mears
Mr. Jimmy Pennewell
Lawrence Lewis, DAG
Mr. Tim McLaughlin
Mr. Joe Zilcosky
Ms. Beverly Ennis
Mr. Peter Bothum
Ms. Jodie Green

ALSO PRESENT: **Navient Corporation** – Joe Muffler; **SLM Corporation (SLM BankCo)** – Martha Holler, Barbara Hearn and James Croft; **NAES Corporation** – Dean Blaha; **Bethany Boardwalk Group, LLC/Bethany Arms Motel & Apts.** – Todd Burbage and Rafael Correa; **M&T Bank** – Rich Gieseler and Chris Willett; Also attending, Ms. Courtney Stewart, Controller Generals Office; and Mr. Adam Damin, Office of Management and Budget, along with members of the public - Trevor Knight and Ravi Pradhan of Admiral Taddy’s Restaurant.

LOCATION: Haslet Building, Room 219, Dover, Delaware 19901

TIME: 9:00 A.M.

CALL TO ORDER:

The meeting was called to order at 9:00 A.M. by Chairman Lubin, on Monday, May 19, 2014. A quorum was present.

OLD BUSINESS:

Mr. Rowland made a motion that the minutes of the March 24, 2014 Council on Development Finance meeting be approved as distributed. Mr. Riddle seconded the motion which was then adopted by unanimous vote.

NEW BUSINESS:

Navient Corporation (“Navient” or the “Applicant”): Navient is requesting a Strategic Fund Performance grant in an amount not to exceed \$1,920,165 for the creation of 167 full-time qualified Delaware positions.

Mrs. Bernice Whaley presented this project to the Council. Mrs. Whaley stated that in 2011, Sallie Mae, owned by SLM Corporation, relocated its corporate headquarters to Newark and to assist with the relocation, SLM DE Corporation was approved for a Strategic Fund Performance grant. She further stated that Sallie Mae was legally split into Navient and SLM BankCo on May 1, 2014. The restructuring separates its loan management, servicing and asset recovery from its private lending operations. SLM has drawn down on its existing 2011 grant but as a result of Sallie Mae's corporate restructuring, the existing grant agreement with Sallie Mae will be terminated. All existing positions will remain in Delaware, but will be housed under the two new entities. Navient is the new loan management, service and asset recovery company. In addition to the employment base, Navient estimates the creation of 207 new positions by December 2016, of which 167 meet a minimum annual salary requirement of \$30,000 and are eligible for incentives. She referred to Exhibit 1 which provided the new employee base line, job requirements and benchmark projections. Mrs. Whaley stated that staff favorably recommends terminating SLM Corporations existing grant and approving a new performance grant to Navient in an amount up to \$1,920,165 for the creation of 167 full-time permanent Delaware positions.

Mrs. Whaley introduced Mr. Joe Muffler, Vice President of Real Estate who thanked the members of the Council. Mr. Muffler stated that Navient came to Delaware in 2008 and by 2011 it had moved its headquarters here. He stated that Sallie Mae is halfway through meeting the requirements of the 2011 Agreement with DEDA when the company decided to split into two entities. Sallie Mae reached out to DEDO regarding the corporate split and the growth of employees from 1142 to 1750 positions. Mr. Muffler stated that Navient was created to help clients navigate the path to financial success. Navient will retain 743 of the existing Delaware positions, and estimates the creation of 207 new positions of which 167 meet the minimum requirements of the incentive program.

Mr. Muffler stated that Navient has invested more than \$60,000,000 in Delaware and will complete a \$2,500,000 renovation of the Prides Crossing office to provide additional capacity to allow it to grow significantly. Mr. Muffler stated that Navient has \$140 billion plus in assets and is growing its balance sheet due to the superior workforce in Delaware and quality customer service to more than 10 million customers. Currently Sallie Mae has two long-term leases within the State; one at 800 Prides Crossing and one in the City of Wilmington which will house the Navient headquarters.

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

Motion made by: Mr. Sears
Seconded by: Mr. Rowland

MOTION: Recommend a Delaware Strategic Fund Performance grant in an amount not to exceed One Million, Nine Hundred and Twenty

Thousand, One Hundred Sixty-Five Dollars (\$1,920,165) for the creation of 167 full-time qualified Delaware positions.

Approved by Vote of 6 to 0.

SLM Corporation (SLM BankCo) (“SLM BankCo” or the “Applicant”): SLM BankCo is requesting a Strategic Fund Performance grant in an amount not to exceed \$3,719,740 for the creation of 324 full-time qualified Delaware positions.

Ms. Bernice Whaley presented the project to the Council stating that SLM BankCo is the second entity created as a result of corporate restructuring of Sallie Mae. She stated that this applicant is the new private lending operations company. She also reiterated that all positions will remain in Delaware and the existing grant agreement with SLM DE will be terminated. She stated that as you heard from the previous applicant, there is a tremendous commitment to Delaware, ongoing growth and capital expenditures and staff favorably recommends the support of the Performance grant.

Mrs. Whaley introduced Ms. Martha Hollar, Sr. VP Marketing Operations & James Croft, Director of Account Acquisitions. Ms. Hollar stated that Sallie Mae came to Delaware to grow and grow it has. From that growth, it has spun off into the two new entities. Ms. Hollar stated that the services each entity will provide range from loan management, service and asset recovery to private lending. Ms. Hollar stated that Sallie Mae was created to help families save, plan and pay for college. Ms. Hollar stated that SLM BankCo has \$10 billion in assets and will disclose and originate about \$4 billion more in new loans this year. With the increase in growth, it will then create a new business to service the third party investors.

Mrs. Whaley stated that staff recommends the approval to terminate the existing grant agreement with SLM DE and to support SLM BankCo’s request for a Performance grant in an amount up to \$3,719.740 for the creation of 324 full-time qualified Delaware positions.

Director Levin added that DEDA has not paid for any of the jobs that were not created by Sallie Mae as it received nothing up front. This new corporate restructuring will result in an additional 300 positions being created. He also added that Sallie Mae has been a great corporate citizen in Delaware.

Chairman Lubin asked if SLM BankCo and Navient were publicly traded entities and will that remain. Ms. Hollar stated that SLM BankCo and Navient were trading on the NASDAQ stock market under the ticker symbol SLM and NAVI respectively.

Mr. Sears commented that he has recently worked with Sallie Mae and agrees that it is a great corporate citizen.

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

Motion made by: Mr. Rowland
Seconded by: Senator Cook

MOTION: Recommend a Delaware Strategic Fund Performance grant in an amount not to exceed Three Million, Seven Hundred and Nineteen Thousand, Seven Hundred and Forty Dollars (\$3,719,740) for the creation of 324 full-time qualified Delaware positions.

Approved by Vote of 6 to 0.

NAES Corporation (“NAES” or the “Applicant”): NAES is requesting a \$360,262.50 Strategic Fund Performance grant to help relocate its Carneys Point, NJ office to Delaware. The relocation will include all 36 full-time positions and the creation of 9 additional full-time positions within the State of Delaware.

Mrs. Barb DeHaven presented this request to the Council. Mrs. DeHaven introduced Mr. Dean Blaha, Division Director and project lead. Mrs. DeHaven stated that NAES was founded in 1980 and is now a part of ITOCHU in Japan and currently headquartered in the State of Washington. Mrs. DeHaven stated that NAES will be relocating to Delaware and creating high quality, high salaried positions, and therefore recommends a Strategic Fund grant for NAES’ relocation.

Mr. Blaha stated that NAES will be relocating a headquarters office from NJ to Delaware. Currently, the space it now occupies is too small and it is looking to expand. A location/site was found in New Castle. He acknowledged that the grant will help them with relocation costs. Once the move is complete, NAES plans to expand from 36 positions to 45 positions over the next three years. Mr. Blaha also mentioned that NAES has signed a 7-year lease for the site in New Castle. Mr. Blaha thanked the Council for its time to hear NAES’ request.

Mr. Bushweller asked what the key factors were in choosing Delaware -- specifically New Castle. Mr. Blaha stated that NAES considered three things after taking a 20-mile radius from its current location. Those three things were the inventory costs were significantly less in Delaware, the cost of the lease was lower, and the fact that half of the staff currently resides in Delaware.

Mr. Riddle asked how many positions are in New Jersey and are there other opportunities for NAES in Delaware. Mr. Blaha stated that there are currently 36 positions that will be moving to Delaware. He also stated that there are approximately 600 independently operated power plants with NAES operating 128 of them. Any plant that NAES is not currently operating is an opportunity.

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

Motion made by: Mr. Sears
Seconded by: Mr. Riddle

MOTION: Recommend a Delaware Strategic Fund Performance grant in an amount not to exceed Three Hundred and Sixty Thousand Two Hundred Sixty Two Dollars and Fifty Cents (\$360,262.50) to help relocate all 36 full-time positions and create 9 additional full-time positions.

Approved by Vote of 6 to 0.

Bethany Boardwalk Group LLC/Bethany Arms Motel & Apts., Inc. & M&T Bank (“BBG” or the “Applicant”): BBG and Bethany Arms Motel & Apts., Inc. and M&T Bank are requesting a State Small Business Credit Initiative (SSBCI) participation loan in the amount of \$1,000,000 towards the commercial mortgage term loan to construct a 112 room luxury hotel in Bethany Beach, Delaware.

Mr. Joe Zilcosky presented this request to the Council. Mr. Zilcosky stated that this is a \$30,000,000 project with M&T Bank issuing a \$19,000,000 mortgage and SSBCI participating with a \$1,000,000 loan. Mr. Zilcosky introduced Todd Burbage and Raffael Correa from BBG and Rich Gieseler and Chris Willett from M&T. Mr. Zilcosky pointed out that this request was for the SSBCI funds and not Strategic Funds. Mr. Zilcosky stated that this project consists of an oceanfront luxury hotel in Bethany Beach with 112 rooms that is affiliated with Marriott. Mr. Zilcosky referenced other premier residential, commercial and hospitality properties as well as a campground on the Delmarva Peninsula that these developers have developed over the last 30 years. Although there is no employment requirement with SSBCI funds, it is estimated that this project will create approximately 45 positions.

Mr. Burbage shared that he has had a lot of holdings and assets in Delaware dating back to the early 1980s. He commented that this opportunity came up with the current owner/family as he was looking for another project in Delaware. He stated that a recently completed Marriott in Virginia had a significant turnaround time due to a great team and the expectation is the same for this project.

Ms. Mears communicated that most SSBCI discussions/loans achieve a 1:10 public to private leverage and wanted to point out that this project achieves a 1:29 leverage. She also pointed out that this project will have a great impact on Delaware and the Bethany Beach community.

Mr. Riddle inquired as to the timeline for the project. Mr. Burbage stated that the current building/hotel has been demolished and that an April 2015 opening is anticipated. Mr. Riddle asked what was harder to run - a campground or a hotel to which Mr. Burbage

replied that the campground takes more staff to run and this is essentially a flat hotel. Mr. Burbage also added that Mr. Bob McCarthy who has 35 years with Marriott has decided to invest \$1,000,000 into the project.

Chairman Lubin noted that this project estimates a per bed cost to be roughly \$300,000, and wanted to know how this compares with other similar projects. Mr. Burbage stated that BBG had four market studies completed for this area and determined that after consideration of all studies, it is within the appropriate range for the Bethany Beach area.

Mr. Sears asked for clarification of the terms of the loan being a 3-year term with a 5-year extension. Ms. Mears replied that DEDO will be paid on the participation loan after 3 years. Ms. Mears also stated that the ownership structure still needs to be finalized and upon finalization principles with more than 20% ownership will be required to have a personal guarantee.

Mr. Riddle asked if the hotel would fall under the name of Marriott. Mr. Raffael stated that this project was a custom project made to fit the look and feel of the Bethany Beach area. Mr. Raffael stated that the name of the hotel would be Bethany Ocean Suites Residence Inn by Marriott.

Director Levin stated that Sussex beaches have done very well this past year according to our Tourism Office. He added that the Hyatt that was constructed in Dewey Beach has been successful and that he thought there would be no reason to believe that this hotel wouldn't do as well if not better. He also stated that DEDO is happy to be participating with M&T Bank.

Mr. Sears inquired about the parking and if the hotel would provide parking spaces for its guests. Mr. Burbage stated that 115 parking spaces will be provided under the hotel for guests along with areas for staff parking.

Mr. Zilcosky stated that the recommendation was to provide an SSBCI participation loan in the amount of \$1,000,000 towards the commercial mortgage term loan at the request of M&T, BBG and Bethany Arms Motel & Apts, Inc.

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

Motion made by: Mr. Riddle
Seconded by: Senator Cook

MOTION: Recommend a State Small Business Credit Initiative loan in an amount of One Million Dollars (\$1,000,000) towards the commercial mortgage term loan to construct a luxury hotel in Bethany Beach.

Approved by Vote of 6 to 0.

Other Business:

Chairman Lubin turned the meeting over to Director Levin who acknowledged one of the Council members. Director Levin announced that Representative Scott would not be seeking re-election for another term and thus would not be returning as a member of the Council. Director Levin expressed that Rep. Scott has made a huge impact on CDF, the people in his district, along with the people of the State of Delaware. Director Levin presented him with a Proclamation prepared by the Governor and Lt. Governor in recognition of his service to the Council on Development Finance.

Representative Scott expressed his gratitude to everyone on the Council along with the staff at DEDO. He stated that it was a pleasure to serve the people and businesses of the State of Delaware. He stated that his company, SITEL Corporation has grown over the years and that he would be focusing on that growth. Representative Scott also suggested that the Council promote the business successes that come before the Council. He mentioned that there is such great work that comes out of this Council and that should be acknowledged.

Mr. Riddle made a motion to conclude the CDF meeting and Mr. Rowland seconded the motion which was then adopted by unanimous vote.

ADJOURNMENT: The meeting adjourned at 9:47 A.M.

Respectfully submitted,

Beverly K. Ennis

BKE

cc: Members of the Council on Development Finance
Director Alan Levin
Lawrence Lewis, DAG

The next CDF meeting is scheduled for Monday, June 23, 2014 at 9:00 A.M. at Buena Vista in New Castle, Delaware.