

COUNCIL ON DEVELOPMENT FINANCE

September 22, 2014

PUBLIC HEARING 406

THOSE PRESENT:

Mr. Andy Lubin, Chairperson
Senator Brian Bushweller
Senator Nancy Cook
Tarik Haskins, Esquire
Mr. Jack Riddle
Mr. Richard Rowland
Mr. Fred Sears
Mrs. Richelle Vible

Director Alan Levin
Mrs. Rachael Mears
Mrs. Cassie Porter
Mr. Jimmy Pennewell
Mrs. Lee Porter
Mrs. Jodie Green
Lawrence Lewis, DAG
Mrs. Bernice Whaley
Mr. Tim McLaughlin
Mrs. Barb DeHaven
Mr. Joe Zilcosky
Mr. Peter Bothum
Mrs. Karen Smith
Mrs. Sally Wojcieszyn

ALSO PRESENT: **Delaware State University** – Dr. Teresa Hardee, CPA and Chief Financial Officer and Vice President for Finance and Administrative Services; Michelle Martin, Emilie Ninan, Esquire, Ballard Sphar, LLC, and Julius Coursey of Wells Fargo; **Bayhealth Medical Center, Inc.** – Mr. Terry Murphy and Mr. L. Rhonenbaugh; **IPR International, LLC** - Ms. Tami Fratis and Mr. John (Sean) Meenan; **Lumilant Inc.** – Ahmed Sharkawy. Ph.D; Ms. Lindsay Lewis, OMB; and Ms. Courtney Stewart, Office of the Controller General

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 9:00 A.M. by Chairman Lubin, on Monday, September 22, 2014. Chairman Lubin thanked everyone for their attendance at last month's meeting for the "Promoting Ethics In Government" presentation which was

presented by Deborah J. Moreau, Esquire with the Delaware Public Integrity Commission.

OLD BUSINESS:

Mr. Sears made a motion that the minutes of the June 23, 2014 and the August 25, 2014, Council on Development Finance meetings be approved as presented. Senator Cook seconded the motion which was then adopted by unanimous vote.

NEW BUSINESS:

Delaware State University (“DSU” or the “Applicant”) – The Applicant is requesting that The Delaware Economic Development Authority (“DEDA”) act as a conduit issuer of tax-exempt bonds in an amount not to exceed \$38,500,000. The proceeds of the revenue bonds issued pursuant to a plan of finance in one or more series 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 construction, equipping and furnishing of an Optical Science Center for Applied Research; (2) the purchase of the University Courtyard, a 416 bed student housing facility located on the campus of Delaware State University, the construction of which was financed by the Kent County, Delaware Student Housing Revenue Refunding Bonds (Delaware State University Student Housing Foundation Project) Series 2004A; (3) the acquisition and capital improvement of the former Sheraton Hotel and Convention Center, now known as the Living and Learning Commons, a 264 bed student housing facility; (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. The funds will be used for DSU’s existing facilities located at the Optical Science Center for Applied Research located on Main campus of Applicant located at 1200 North DuPont Highway in Dover, Delaware; University Courtyard located at 430 College Road, Dover, Delaware; and former Sheraton Hotel and Convention Center located at 1570 N. DuPont Highway, Dover, Delaware. The Project will be owned and operated by the Applicant (the “Project”).

Mr. Zilcosky presented this request to the Council. Mr. Zilcosky stated that these funds would be used to construct an optical building and for the acquisition of the former Sheraton Hotel and the University Courtyard complex in Dover, Delaware. He also added that a new charter school is currently utilizing the back of the former Sheraton Hotel. He stated that it is anticipated that this Project will create thirty-one new jobs. Mr. Zilcosky also added that DSU’s Optic Program has received \$23 million in research grants.

Mrs. Ninan, with Ballard Spahr, LLC and acting as Bond Counsel for this Project, stated that these bonds are just like the bonds that DEDA has issued in the past in that with 501(c)3 bonds there is no limit to the amount of issuance and no credit of the State or DEDO is being given to support the bonds. She stated that the bonds are supported solely on DSU’s credit worthiness. She stated that it seems likely that the bonds will

have a thirty year fixed rate with an interest rate of a high three or low four percent. Wells Fargo is the Underwriter.

Senator Bushweller stated that he was very happy to see this Project come before the Council. He stated that for many years, DSU has been a key element in the fabric of life all across Delmarva and especially in the last ten years. He stated that the university has grown in stature not only as an educational center in the MidAtlantic region but for other countries. He commented that there were many flags representing the many countries represented in DSU's enrollment. He stated that he believes DSU is one of the main economic drivers in the Dover and Kent County area.

Mr. Sears asked for a breakdown of the \$37,000,000. Dr. Hardee stated that this is a \$48,000,000 project and that \$15,000,000 will be going toward the Courtyard, \$12,000,000 for the Sheraton acquisition and the remainder for the Optical Center and various other costs. She added that DSU has now received the necessary approval to offer a fully online staff program.

Mr. Riddle asked for an explanation of the relationships between the various entities such as Delaware State University Foundation and Delaware State University. Dr. Hardee stated that the Foundation entity is the entity that does the fund-raising. She stated that the DSU Student foundation is for the Courtyard and the building independent of the University. DSU has brought in the Village complex and will now be bringing in the Courtyard complex. Mr. Lubin stated that this is not an uncommon practice. Dr. Hardee stated that DSU will dissolve the Foundation once the Courtyard is brought in.

Mr. Riddle asked about the building located on Kirkwood Highway near Wilmington. This was a building donated from the Military Army Reserve. Dr. Hardee stated that the facility will be used mainly for the graduate program. She added that there are five programs there now. She stated that it will be used for professional development - adult learning. She stated that it is in service now and has approximately 250 students. Mrs. Vible stated it is a very attractive building which looks very conducive to learning.

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

Motion Made By: Senator Bushweller
Seconded By: Senator Cook

MOTION: 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; and further that the

Council shall recommend to Mr. Alan B. Levin, Chairperson of The Delaware Economic Development Authority, approval of an amount not to exceed Thirty-Eight Million Five Hundred Thousand Dollars (\$38,500,000.00), 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 September 21, 2015.

Approved by Vote of 8 to 0.

Bayhealth Medical Center, Inc. (“Bayhealth” or the “Applicant”) – The Applicant is requesting a Delaware Strategic Fund performance grant in an amount not to exceed \$481,309. The Applicant proposes to use the funds to create new employment opportunities in Dover, Delaware (the “Project”).

Mr. Zilcosky presented this request to the Council. He stated that Bayhealth will be adding a fourth floor shell to allow for future expansion. Bayhealth will be adding 32 private intermediate care beds to the third floor which is currently an empty shell. Bayhealth will be adding a fourth floor empty shell to allow for this expansion. Mr. Zilcosky stated that it is required to have an empty shell floor over an occupied floor because construction cannot occur directly above patient’s beds. As a result of this expansion, Mr. Zilcosky stated that Bayhealth will be creating 97 new full-time positions.

Mr. Murphy stated that Bayhealth has been greatly expanding as so has the surrounding population which is expected to double from 2010 to 2030. He stated that Bayhealth Kent Campus can expand vertically and has the ability to go up to ten stories. He stated these extra 32 beds will help Bayhealth get the patients out of the emergency room into a bed quicker.

Mr. Murphy stated that Bayhealth is also involved with a large capital project in Milford of approximately \$250,000,000.

Senator Bushweller stated that Bayhealth has provided critical services for years and that he believes that there were some visionary people that said Bayhealth could even do better and it continues to do so. He added that now with the affiliation with teaching hospitals, the expanded scope of medical services and areas of expertise available at Bayhealth, Bayhealth is on the verge of being a high quality regional medical center that can compete with the best of medical services in the surrounding areas. He added that Bayhealth is also an economic driver as well. Senator Bushweller stated that Bayhealth is a private employer and the highest employer in Kent County.

Mr. Murphy stated that Neurosurgery services were started in the last five years. He stated that this is all a part of trying to make sure Bayhealth provides topline services locally so that the local patients do not have to travel elsewhere.

Mr. Riddle asked about the current discussion in Washington, D.C. regarding the reimbursements to hospitals and if it was felt it would make it more difficult for the hospitals.

Mr. Murphy stated that it is his understanding that it is more than just a discussion. He added that it is his understanding that according to the American Hospital Association, that it has been agreed to forego some future payments to ensure that more and more people would be insured through local agencies. Mr. Murphy stated that he believes that some hospitals are going to face some trying times. He added that Bayhealth is working to keep its A+ rating which comes from the federal and state levels. He stated that they are thinking smarter but that those challenges are definitely there. Mr. Riddle stated that the financials looked pretty strong at this time but he questioned the IT costs expected for the Bayhealth Milford facility. Mr. Murphy stated that the IT system in Milford has been “sunsetting” with a specific vendor at a cost of \$40,000,000 over five years. He added that the exciting thing about this was that it will dramatically be centered on the people. He stated that this is a capital expenditure that can’t be avoided in any way. The system which is the EPIC system is rated #1 for patient and ambulatory uses. He added that he believes it will be very good for both Kent and Sussex patients.

Director Levin stated that he and Governor Markell toured Bayhealth Dover recently and he has had experience with triage and emergency rooms and that Bayhealth has become an amazing facility. He added that it is remarkable to see the strides that Bayhealth has already made and it is impressive to see where it is headed. Director Levin added that healthcare is one of the things that is constantly being focused on.

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

Motion Made By: Mr. Richard Rowland
Seconded By: Senator Brian Bushweller

MOTION: 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 grant proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested grant funds; (iv) the grant 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, the Council shall recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of a performance grant in an amount not to exceed Four Hundred Eighty-One Thousand Three Hundred Nine Dollars (\$481,309.00), to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including September 21, 2015.

Approved by Vote of 8 to 0.

IPR International, LLC ("IPR" or the "Applicant") – The Applicant is requesting a Delaware Strategic Fund performance grant in an amount not to exceed \$135,923. The Applicant proposes to use the funds to help off-set costs associated with relocating its headquarters from Wayne, Pennsylvania to Wilmington, Delaware (the "Project").

Mrs. DeHaven presented this request to the Council. She stated that IPR decided to relocate its operations from Wayne, Pennsylvania to downtown Wilmington, Delaware. She added that IPR will be creating 30 new positions within the next three years. She stated that IPR offers Private Cloud & Infrastructure-as-a-Service Solutions as well as Cloud-based Data Management, Data Protection Services and a full range of Managed Solutions. Mrs. DeHaven stated that IPR has been servicing clients since 2002 and has been growing ever since. She added that the personal income tax generated from its employees, well exceeds the amount IPR is requesting.

Ms. Fratis stated IPR is excited about moving its headquarters to Delaware; specifically the Data Center which is the former Chase facility. She stated that IPR saw the 400 strands of fiber available and was convinced that this is the place that IPR needs to be because she knows companies will want to stay and expand here. Ms. Fratis also stated that the favorable corporate tax laws were a consideration. She stated that she is very comfortable with the idea of IPR bringing clients here as IPR will have backup and disaster recovery ability for these companies.

Mr. Rowland questioned the EBITDA figure showing a deficit of \$500,000 after six months. Mr. Meenan replied that from what IPR has done and from Ms. Fratis taking over, IPR brought in a firm to help it build the business by injecting more efficiency from an operational prospective in regards to putting in new technologies and keeping its entrepreneurial spirit. He stated that those are the costs that were primarily driven. He added that IPR has taken on a whole second floor increasing the occupancy expense and it has added more people. He stated that IPR has added 8,000 square feet of low density and high density space using very sophisticated technology. He stated IPR has grown its capital and has a new platform geared to small and medium-sized businesses. He stated that IPR has invested in technology platforms, and that it will continue to bid out its automation to be able to serve smaller businesses as well as its traditional clients. Mr.

Rowland asked what IPR considered as a small business – approximately 20 to 200 employees. Ms. Fratis stated that IPR also deals with companies that have 20,000 employees.

Ms. Fratis stated that IPR is able to expand within its current facility. She stated that the nine floors used to be for one tenant. She stated that the infrastructure can sustain nine floors of data. Ms. Fratis stated that currently IPR has one floor and has the ability to go three floors higher. She stated that she thinks this is a phenomenal building. She added that IPR has also brought in newer technology for the cooling aspect required in this business.

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

Motion Made By: Mrs. Vible
Seconded By: Mr. Rowland

MOTION: 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 grant proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested grant funds; (iv) the grant 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, the Council shall recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of a performance grant in an amount not to exceed One Hundred Thirty-Five Thousand Nine Hundred Twenty-Three Dollars (\$135,923.00), to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including June 23, 2015.

Approved by Vote of 8 to 0.

Lumilant Inc. (“Lumilant” or the “Applicant”) – The Applicant is requesting a \$50,000 grant from the Delaware Strategic Fund under the Delaware Technical

Innovation Program. Having applied for a Federal Phase II STTR grant, this assistance would help the Applicant maintain staff and continue its research developing disruptive photonic solutions pending Phase II approval. This business is located in Newark, Delaware (the "Project").

Mrs. DeHaven presented this request to the Council. She stated that Dr. Sharkawy is the co-founder of Lumilant. She stated that the company focuses on the combination of three sciences – Nano technology, photonics and electronics. She stated that Lumilant received a \$150,000 Phase I Grant Award and has submitted a proposal for a Phase II award but has not been notified of that decision as of yet. The research is in its very early stages. In accordance with an STTR funding, Lumilant has teamed up with the University of Delaware.

Dr. Sharkawy stated that the Army has challenged Lumilant to design a synthetic material which will camouflage specific targets. He stated that the idea is for Lumilant to be the primary supplier to the US Army for such product. This product would enable the Army to identify what is behind a target. Dr. Sharkawy stated that the primary commercial application is for the Army but another application would be for early detection of breast cancer.

Mrs. Vible asked if we knew the success rate of the projects getting a Phase II. Mrs. Mears shared that a Phase II award is not a requirement. However she added that the Authority does require that the Applicants submit that information and that that information could be provided to the Council. Mrs. Mears also stated that once it gets past the Phase I, it is marketable to local companies that are interested/could use that application.

Chairman Lubin asked Dr. Sharkawy if Lumilant should get through the process, would Lumilant take on the development of the product. Dr. Sharkawy stated that Lumilant would most likely partner with a local manufacturer.

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

Motion Made By: Mr. Sears
Seconded By: Senator Cook

MOTION: 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, the Council shall recommend to

Director 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 21, 2015.

Approved by Vote of 8 to 0.

ADJOURNMENT

The meeting adjourned at 9:45 a.m.

Respectfully submitted,

Lee Porter, Secretary

LKP

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

The next CDF meeting is scheduled for Monday, October 27, 2014 at 10:30 A.M. at Buena Vista in New Castle, Delaware.