

COUNCIL ON DEVELOPMENT FINANCE

January 25, 2016

PUBLIC HEARING 418

THOSE PRESENT:

Mr. Andrew Lubin, Chairperson
Sen. Nancy Cook
Mr. Richard Rowland
Mr. Jack Riddle
Director Bernice Whaley
Mr. Lawrence Lewis, DAG
Ms. Patty Cannon

Mrs. Barb DeHaven
Mr. Joseph Zilcosky
Mrs. Rachael Mears
Mr. James Pennewell
Ms. Kimberly Cruz
Ms. Emily Baird
Mrs. Christina Dirksen, via conference call

ALSO PRESENT: **EnviroKure** – Mr. Mark Lupke, Mr. Joseph Steck, Mr. Chris Chipman, Ms. Sonia Notziger Dasgupte, and Mr. Spiros Mantzavinos; **Proximity Malt** – Mr. Dale Bugajski, and Ms. Amy Germerhausen, both via conference call; **The Davey Tree Expert Company** – Mr. Philip Snyder, and Mr. David Balint; **Massey’s Landing Properties, LLC** – Mr. Jeffrey Clark, Mr. Linford Faucett III, and Mr. Rafael Correa; Mr. Edward Kee, Delaware Department of Agriculture; Mr. Michael Puglisi, Puglisi Farms; Mr. Robert Rider, O.A. Newton; Mr. William McGowan, USDA – R&D; Mr. Chris Willett, M&T Bank

LOCATION: Buena Vista

TIME: 10:30 A.M.

CALL TO ORDER:

The meeting was called to order at 10:30 A.M. by Chairperson Lubin, on Monday, January 25, 2016. The meeting was delayed from the scheduled time of 9:00 a.m. due to a delayed opening of the Buena Vista Conference Center related to inclement weather.

Chairperson Lubin explained that, due to circumstances involving the weather, the Council was unable to obtain a quorum for the meeting. As a result, the Council members in attendance are unable to make recommendations for the projects being presented today. In fairness to the applicants, the Council members present will hear the applications, and recommendations will be made at the February Council on Development Finance meeting with a quorum.

NEW BUSINESS:

EnviroKure, Inc. (“EnviroKure” or the “Applicant”) – The Applicant is requesting a Delaware Strategic Fund performance grant in an amount not to exceed \$55,437.00, and a Capital Expenditure grant in an amount not to exceed \$255,484, for a total of \$310,921. The Applicant proposes to use the funds for the creation of 12 full-time Delaware positions as it establishes its new location in Harrington, Delaware.

Ms. Cannon presented this request to the Council. She stated that EnviroKure intended to establish a facility in Harrington, Delaware that utilizes poultry waste by-product, turning it into a

organic liquid fertilizer for agricultural, turf, and home & garden use. Ms. Cannon stated that this facility would create 12 new manufacturing jobs, as well as positively impact Delaware's agricultural economy and ecosystem.

Secretary Kee of the Delaware Department of Agriculture stated that EnviroKure approached his office approximately four years ago, citing the impact of its program upon Delaware's poultry industry with the ability to reprocess between 20 to 22 tons of manure per year. Secretary Kee was impressed with their proposal and professionalism, and stated that the Delaware Department of Natural Resources and Environmental Control's (DNREC) Director is also excited about the project and applications of the product.

Mr. Lubin asked what percentage the 22 tons of manure is representative of the total amount of poultry waste generated per year. Secretary Kee stated that the 22 tons represents approximately 3 to 4% of the total production of poultry waste annually. He added that out of the approximately 250,000 tons of chicken waste produced every year, two-thirds of that waste is applied on farmland judiciously. Secretary Kee stated that out of the remaining one-third of annual waste, the 22 tons reprocessed by EnviroKure represents 20% of that remaining waste.

Mr. Riddle asked how EnviroKure compares to other companies with similar operations in the market. Secretary Kee stated that the EnviroKure product is unique because it is the first liquid organic fertilizer that is completely liquid, which significantly impacts farmers' application of the product by being able to utilize specific amounts of fertilizer precisely where it is needed. He added that EnviroKure's product is also unique in the way that it utilizes nitrogen and phosphorus from the manure.

Mr. Riddle asked what is the scale of the market. Secretary Kee stated that he does not know the numbers of potential sales, but that the organics market has grown between 10-20% across the country.

Mr. Riddle asked if the product is to be shipped outside of Delaware. Secretary Kee stated a percentage would be utilized within Delaware, but the majority of the product would be going to farms located in places such as Florida and California, as well as other locations of organic crop production.

Ms. Cannon stated that the Delaware DNREC's regulatory advisory service reviewed the product, and raised the issue of concerns with the Division of Public Health regarding the application of the liquid fertilizer on consumable crops for humans. She stated that after scientific study, no effects were discovered.

Mr. Rider stated that in 2012, his company, O.A. Newton, purchased an old plastics facility in Harrington, and it was seen as an opportunity for economic development. He stated that O.A. Newton was introduced to EnviroKure, and that the project made sense from a business perspective regarding the synergy of O.A. Newton's drip irrigation systems and EnviroKure's liquid fertilizer. Mr. Rider added that the investors in EnviroKure are very reputable and professional, and that the City of Harrington has a great opportunity having EnviroKure as a tenant.

Mr. McGowan stated that the EnviroKure project qualifies for an investment program through which the United States Department of Agriculture will stand behind the lending institution with an 80% guarantee.

Mr. Lubin asked if the 80% was of the total amount, or 80% of the debt. Mr. McGowan stated that it was 80% of the debt.

Mr. Pennewell stated that during financial analysis, the majority of the review period was conducted during the research phase, and that EnviroKure recently transitioned into the commercialization phase of the project. He stated that, as a result, there was more growth of the business during the commercialization phase, and showed strong sales growth through commercialization. Mr. Pennewell added that while the company showed a loss for 2015 and anticipated a loss for 2016, it anticipates a net profit in 2017.

Mr. Lupke stated that, as the Chief Executive Officer of EnviroKure, he was very thankful to the State of Delaware for showing extraordinary support for the project. He stated that EnviroKure was very interested in the application of precision agriculture, and the ability to use poultry waste products to produce certified organic fertilizer. Mr. Lupke added that they are passionate about sustainability regarding the production and use of organics. He stated that this passion, which is shared not only by the State, but also farmers, is best demonstrated by the fact that EnviroKure has already sold out of their production for 2017, even while anticipating producing ten times more product at the Harrington facility. Mr. Lupke stated that the intent is to use the Harrington plant as a showplace plant, and anticipate opening a second plant shortly after the first is in operation.

Ms. Notziger Dasgupte stated that the board for EnviroKure is composed of a number of experts with previous entrepreneurial experience and successful business careers. She stated that part of the importance of the project is the removal of phosphorus from the East Coast, and applying it in areas where it is needed, such as the Great Plains. She added that EnviroKure's fertilizing product also meeting the United States Department of Agriculture's standards on organic products, which are very high standards to meet, and anticipates the Harrington facility to be fully operational at this time next year.

Mr. Puglisi stated that he anticipates working with EnviroKure, providing up to 15 to 20% of the total poultry waste product from his facility in order to test the project. He stated that, overall, the product sounds wonderful, and looks forward to EnviroKure continuing to operate within Delaware.

Mr. Riddle asked for clarification on the total amount spent on the project, specifically in regard to the convertible notes. Mr. Lupke stated that the December financials for the project show \$2.4 million in convertible notes. He stated that the money has been provided by friends and family of the company. Mr. Lupke added that fundraising for this project has been simpler than for other projects in the past.

Mr. Riddle asked if the notes on the project were subordinated. Mr. Lupke stated that EnviroKure is working in good faith with its investors.

Mr. Lubin asked if the pilot plant in Philadelphia is to be maintained. Mr. Lupke stated that it is.

Mr. Lubin thanked all the members for their attendance, and stated, due to weather-related issues, the Council members present are unable to make a recommendation at this time. He stated that a recommendation of the project would take place at February's Council on Development Finance.

Proximity Malt, LLC (“Proximity Malt” or the “Applicant”) – The Applicant is requesting a Delaware Strategic Fund performance grant in an amount not to exceed \$133,575, a Capital Expenditure grant in an amount not to exceed \$1,500,000, and a Hazardous Substance Clean Up Act grant (formerly known as Brownfields) for the lesser of \$100,000 or 50% of the total costs of environmental assessment and remediation at the eligible site, for a total of \$1,733,575. The Applicant proposes to use the funds for the creation of 23 full-time Delaware positions as it establishes its new location in Laurel, Delaware.

Mrs. DeHaven presented this request to the Council. Proximity Malt is a malt processing company headquartered in Milwaukee, Wisconsin, seeking to establish a barley originating and malt processing, packaging and distribution facility in the Mid-Atlantic region. The Applicant has identified a location at a former grain storage facility in Laurel, Delaware, which is ideal in supplying craft brewers of the region, as well as utilizing local agriculture for the procurement of barley for the malt process. She stated that barley is an ideal crop for the region as it is used as a winter ground cover that reduces soil erosion. Proximity Malt anticipates refurbishing and establishing the facility in Laurel in time to take advantage of the May 2017 barley harvest, and expects to employ 23 new full-time staff of the skilled labor level or higher. Mrs. DeHaven added that the Laurel facility has also been recognized by Delaware DNREC as eligible for a Hazardous Substance Clean Up Act grant.

Mr. Lubin asked if training would be involved for the new employees. Mr. Bugajski stated that new employees would be trained in their duties.

Ms. Cruz stated that the financial analysis review covered the period of 2015 projected through 2020. The Laurel facility is to be placed in service by February 2017 and expects to have the liquidity and growth in sales to cover its debt. Ms. Cruz stated that, overall, Proximity Malt projects to be in a sound financial position upon the successful execution of the financial performance detailed in their business plan; therefore, DEDO recommends approval of their application.

Mr. Bugajski stated that Proximity Malt is excited about the project, and the reception from Delaware. He stated that, not only does the Laurel facility meet the requirements for its production, but that the Applicant is pleased to be in a position to redevelop the plant and give it new life, as it meets its business philosophy of being local, sustainable, and committed.

Secretary Kee stated that barley is a great opportunity for local farmers as it provides a second crop for harvest. He also stated that he wanted to express his support for the Applicant for its professionalism from the start.

Mr. Riddle asked if the \$60 million has already been raised for the project. Mr. Bugajski stated that Proximity Malt has received a commitment for equity investment.

Mr. Riddle asked for a clarification on the project timeline. Mr. Bugajski stated that the Laurel facility will be operational in 2017. He stated that the Phase 1 environmental assessment has already been completed, and has received a guaranteed maximum price for the asset from a general contractor.

Mrs. DeHaven stated that there have been several meetings with the City of Laurel in order to ensure that the project is in good standing within the city.

Mr. Riddle asked if the final product was going to be sold to local brewers. Mr. Bugajski stated that the product would be sold to craft brewers within a 250 mile radius of the facility. He stated that currently the closest malting plants are located in Montreal, Canada and Milwaukee, Wisconsin. He added that Secretary Kee advised that Delaware is already a barley-growing region, and that the State would be working with local agriculture to introduce malting variety barleys unique to the area in order to create a truly local and specialized craft brewing industry. Secretary Kee stated that, 20 years ago, there were 284 brewers in the region, where today there are now over 4,000 individual craft brewers.

Mr. Lubin thanked all the members for their attendance, and stated, due to weather-related issues, the Council members present are unable to make a recommendation at this time. He stated that a recommendation of the project would take place at February's Council on Development Finance.

The Davey Tree Expert Company (“Davey Tree” or the “Applicant”) – The Applicant is requesting a Delaware Strategic Fund performance grant in an amount not to exceed \$50,050. The Applicant proposes to use the funds to relocate and create a total of 25 full-time Delaware positions as it transitions after the acquisition of the Kern Brothers Tree Service and Landscaping Company based in Wilmington, Delaware.

Ms. Cannon presented this request to the Council. Davey Tree recently acquired Kerns Brothers Tree Service and Landscaping, and intended to create 25 new jobs, in addition to the 26 existing jobs, within Delaware. She stated that it was promising that Davey Tree intended to remain in Wilmington and not move employees from Delaware to its office in Aston, Pennsylvania.

Ms. Cruz stated that during financial analysis, it was shown that sustainability and sales increased between 2012 and 2014. She added that while there was a slight decrease in working capital during the period of 2012 to 2015, total assets increased by approximately 25%. Ms. Cruz stated that DEDO favorably recommends approval for the Strategic Fund performance grant request.

Mr. Snyder thanked the Council for hearing the request. He stated that Davey Tree has been licensed to do business within Delaware since 1921, but this is the first opportunity for it to open a facility in the state. He added that all branches of Davey Tree are employee-owned. Mr. Snyder stated that Davey Tree has invested \$750,000 to move the facility and equipment, and relocate the employees from the Aston, Pennsylvania location.

Mr. Lubin asked if the plan was to expand or update the current facility. Mr. Snyder stated that Davey Tree has a new lease on a facility in Claymont, Delaware.

Mr. Lewis asked in what state the Applicant is incorporated. Mr. Snyder stated that Davey Tree is incorporated in Ohio.

Mr. Lubin thanked all the members for their attendance, and stated, due to weather-related issues, the Council members present are unable to make a recommendation at this time. He stated that a recommendation of the project would take place at February's Council on Development Finance.

Massey's Landing Properties, LLC (“Massey's Landing” or the “Applicant”) – The Applicant is requesting a Delaware State Small Business Credit Initiative participation loan in an amount not to exceed \$660,000. The Applicant proposes to use the funds in conjunction with

funding from M&T Bank towards the construction of a luxury RV park located near Rehoboth Bay, Delaware.

Mr. Zilcosky presented this request to the Council. Massey's Landing is a proposed luxury RV park that will include rental cottages and campgrounds located on the Rehoboth Bay. Also to be included on the property is a restaurant, ice cream shop, pool, and facilities for outdoor activities. The Applicant expects to hire 10 full time and 30 seasonal employees. Massey's Landing expects to be completed in time for the 2016 summer season.

Mr. Pennewell stated that during financial analysis, a review of financial projections, bank underwriting, and personal financial statements of the developers was conducted. He stated that once the campground is operational, the bulk of revenue and expenses would be from the campground, with additional revenue being supplied by the restaurant and similar sales facilities on the resort grounds. Mr. Pennewell stated that the Applicant expects profitability beginning in the first year and moving forward, with a net profit margin of 39% within the first year and potentially up to 45% by the sixth year of operation.

Mr. Correa stated that the Massey's Landing project is similar to another project, Castaways resort, by the same group. The Applicant was able to retain the customer list from the Castaways project, and market the Massey's Landing property to those customers. Mr. Correa stated that, as a result, reservations are being taken for the 2016 season, with Memorial Day weekend already sold out. He added that Massey's Landing is utilizing a construction manager and subcontractors from Delaware.

Mr. Riddle asked what are the four facilities. Mr. Willett stated that those are the equipment line, loan limit, support letters of credit, and a line of credit to support operations. He stated that the Applicant anticipates enough excess cash flow after debt and all public expenses to pay the DEDO SSBCI participation loan at the end of the three-year period. Mr. Lubin asked if the intention was to pay the SSBCI loan from the cash flow resources. Mr. Willett stated that decision was to be made by the Applicant, but that M&T bank wanted to ensure that there would be substantial cash flow for the repayment.

Mr. Lubin asked if the balloon payment amount was to be set aside. Mr. Willett stated that M&T Bank did not see that as its role, but that the balloon payment would be satisfied through the cash flow or permanent refinance. Mr. Correa stated that there was a similar situation with the Castaways resort that provided the experience to anticipate the repayment.

Mr. Riddle asked if the resort was seasonal. Mr. Correa stated yes, that the occupants would be transient and the movable facilities would be removed from the property during the off season. Mr. Riddle asked what is the price point of the resort. Mr. Correa stated that the price range would be approximately \$90 to \$100 per night.

Mr. Lubin thanked all the members for their attendance, and stated, due to a lack of a quorum as a result of weather-related issues, the Council members present are unable to make a recommendation at this time. He stated that a recommendation of the project would take place at February's Council on Development Finance.

ADJOURNMENT

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The meeting adjourned at 11:45 a.m.

Respectfully submitted,

Emily Baird, Portfolio Administrator

ESB

cc: Members of the Council on Development Finance
Director Bernice Whaley
Lawrence Lewis, DAG

The next CDF meeting is scheduled for Monday, February 22, 2016 at 9:00 A.M. at Buena Vista in New Castle, Delaware.