

DELAWARE INFRASTRUCTURE INVESTMENT COMMITTEE

May 4, 2016

PUBLIC MEETING 12

THOSE PRESENT:

Director Bernice Whaley, DEDO, Chairperson
Director Jennifer Cohan, DELDOT
Honorable David Sokola, State Senator
Honorable Quinton Johnson, State Representative

Mr. Michael Ratchford, W.L. Gore
Mr. Lawrence Lewis, DAG
Ms. Patty Cannon, DEDO
Mrs. Christina Dirksen, DEDO
Ms. Emily Baird, DEDO

ALSO PRESENT: **Cirrus Delaware, LLC** – Mr. Guy Marcozzi, Mr. Dennis Silicato, and Mr. John Ramagano; Hon. Ken Branner, and Mr. Morris Deputy, Town of Middletown; Mr. Art Jenkins, Office of the Controller General; Ms. Erin Innes, and Mr. Brian Maxwell, Office of Management and Budget; Mr. Karl Baker, The News Journal; Mr. Ken Woods, Sheet Metal Workers Local 19; Mr. Nick Wasileski, and Mr. John Flaherty, Delaware Coalition for Open Government; Ms. Nancy Willing, Civic League for New Castle County; Mr. John Morgan, Mr. Peter Sullivan, Mr. Martin Willis, and Mr. Alan D. Harris

LOCATION: Delaware Economic Development Office, Dover

TIME: 12:00 P.M.

CALL TO ORDER:

The meeting was called to order at 12:00 P.M. by Chairperson Whaley, on Wednesday, May 4, 2016.

NEW BUSINESS:

Cirrus Delaware, LLC (“Cirrus” or the “Applicant”) – The Applicant is requesting up to \$7,500,000 in funds for infrastructure improvements for the Middletown Technology Center (MTC), including investments in fiber optics, electrical power, natural gas, and potable water. The project is located in Middletown, Delaware.

Mr. Marcozzi presented this request to the Committee. He stated that he is president and CEO of Duffield Associates, in partnership with MEP Associates and Mautom, LLC, to form Cirrus Delaware, LLC. He introduced Mr. Ramagano of MEP Associates and Mr. Silicato, managing partner of Mautom, LLC. He stated that Duffield Associates is the largest privately-held engineering firm in Delaware, MEP Associates is a data center consulting firm, and Mautom, LLC is the landowner of the property for the proposed project. He thanked the committee and the public for their time and interest.

Mr. Marcozzi stated that Cirrus has proposed the construction of a 40 Megawatt data center, with the ability to generate power onsite and connect to the electrical grid. He stated that the facility will mostly pull power from the PJM grid from Middletown, and utilize its own power during peak usage times, which he compared to a highway system during rush hour. He stated that the project is estimated to cost \$350 million, that there are 750 associated construction jobs expected,

and, upon completion, 117 full-time jobs at the 24-hour data center and energy distribution facility. He added that part of the project construction proposal will be to link to the 138 kV transmission lines located at an adjacent substation servicing Middletown, allowing the plant to provide energy to the town and reliably service its own facility. Mr. Marcozzi stated that there will be improvements to the existing substation, allowing the 138 kV to lower to 34 kV. He stated that these improvements will be done partially on the Middletown site and on the MTC site. He added that there will also be the construction of a high-pressure natural gas main, recompression stages for the main, multiple strands of redundant fiber optic cable, and potable water for the facility, and that all of the utilities will be in the vicinity of and available to Middletown.

Mr. Marcozzi stated that he wished to address the public purpose and benefit of the proposed project. He stated that even with the additional transmission lines and improvements to the substation, the electrical network becomes less reliable when it is stressed during peak usage periods. He stated that by building an infrastructure for high usage periods, along with the cooperation of the Delaware Municipal Electric Cooperative (DMEC) and the Town of Middletown, Cirrus will be able to utilize the electricity from its facility during high demand load, and return some of that electricity back to the town during exceptionally high periods in order to mitigate the power load. He added that building the facility will provide more power to the location, and during peak usage periods reduce electricity loads to Middletown. He stated that the proposed natural gas line would not only service the MTC facility, but could also be utilized elsewhere.

Mr. Marcozzi stated that Middletown has done a fantastic job setting itself up for growth, an example of which is the concept of Westown. He stated that the MTC facility will provide enhancements and stability to the electrical system, natural gas, water, and data fiber to the Westown area. He stated that planning of the area and incorporation of the Route 301 corridor, providing access to the area, leaving the remaining piece of the infrastructure puzzle as utilities, which the Applicant will be able to provide. He added that the services offered by the MTC facility will benefit the Applicant, other businesses that move to the area, and local residents. Mr. Marcozzi stated that Cirrus expects to spend \$50 million on the infrastructure investments, and seeks this grant of \$7.5 million to offset costs.

Director Whaley asked the Mayor of Middletown, Hon. Branner, to speak. Hon. Branner stated that the Town of Middletown is sponsoring the application, and mentioned that the area does not currently have a high pressure gas line available to serve the community. He stated that the addition of the gas line will enhance the future growth of the corridor and particularly Westown.

Director Whaley asked if there were any questions from the Committee regarding Cirrus Delaware, LLC.

Mr. Ratchford asked if the power plant was intended to be a merchant power plant, where the Applicant would sell power commercially back to the grid. Mr. Marcozzi said that it is precluded from operating in that manner, where any power that is generated at the facility must leave through Middletown. Mr. Ratchford asked if it was correct that the data center would require 40 Megawatts of power and the power center would require 50 Megawatts, as he understood the data from the application. Mr. Ramagano stated that is correct, and that the project consists of two phases. He stated that the data center floor would require 36 Megawatts for a usable raised floor environment (known as “white space”), which would be supported by ancillary power. He stated that the data center is currently designed at 1.4 power usage effectiveness (PUE), bringing the

total power requirement to 50 Megawatts at full build for the white space and the ancillary power space.

Mr. Ratchford asked if it was correct that the current substation would not be able to support those power requirements, and why it was necessary to outfit MTC to the size specified in the application. Mr. Ramagano stated the intended improvements include upgrades to the 138 kV transmission lines, as it is currently configured at 25 kV, increasing the existing substation, and adding a second line at the same resilience. He stated that these upgrades would allow the area to be competitive in the marketplace in relation to the Philadelphia, Washington D.C., and Northern Virginia markets, with proper power pricing to support that competitiveness. Mr. Ratchford asked for clarification for the term market. Mr. Ramagano stated that the term market is specifically in reference to data centers, and that to help support the data center the Applicant would construct a natural gas facility to generate power at the data center if grid pricing or any type of catastrophe may eliminate usage of the transmission lines.

Mr. Ratchford asked whether the intent is to continually operate MTC, operate only during peak usage times when it is economical, or operate during any type of a blackout. Mr. Ramagano stated that the power facility is only allowed to operate within the confines of the air quality permit issued by the Delaware Division of Natural Resources and Environmental Control (DNREC), and that usage is capped at a specific number of hours of operation, regardless of pricing. He stated that when the grid economics do not allow for purchase off the grid, MTC would generate electricity within the confines of the air quality permit. Mr. Ratchford asked if the power plant would be in operation during peak demand. Mr. Ramagano stated that is correct.

Mr. Ratchford asked if the data center would be economically operational without power supplied by the MTC facility. Mr. Marcozzi stated that it was not believed to be the case for the residents. Mr. Ratchford asked for clarification. Mr. Marcozzi stated that the pricing would not be compatible to generate interest in relocation to the area. Mr. Ratchford asked for more detail in regard to the fact that the MTC facility would need to be beneficial to more than its own operations. Mr. Marcozzi stated that the facility would benefit the entire area by the upgrade of the existing substation, providing reliability to the community, and that generating power during peak demand relieves stress on the system as a whole.

Mr. Ratchford asked what entities will be operating the data center and the power plant, and whether those facilities were considered separate or the same. Mr. Marcozzi stated that due to the desire for a lack of publicity and potential security issues, the client has not released permission to announce its name at this time, but that Cirrus is in negotiations with a Fortune 500 company to manage first phase operations of the facility. He stated that the client would operate the entire MTC facility, and that the requirements specify that the plant can only generate power for itself. He added that a specialist would be involved in the power plant facility.

Mr. Ratchford asked if any members of this project had previously been involved in The Data Center, LLC (TDC) project in Newark, Delaware. Mr. Marcozzi stated that no members of the current project had been involved with the previous project in regards to ownership, operations, or financing.

Hon. Johnson asked what would be the average salary for the proposed 117 full time positions once the facility is operational. Mr. Marcozzi stated that the average salary is estimated to be \$75,000.

Hon. Sokola asked if the Applicant would elaborate on potential strategic partnerships between technical high schools and colleges in the region. Mr. Marcozzi stated that the construction jobs associated with the project are significant, specialized, and cutting edge, providing opportunity to allow apprenticeships for those students and providing job experience. Hon. Sokola asked when construction on the MTC facility would start. Mr. Marcozzi stated that construction would start approximately 3-4 months following the approval of the last permit, to which he stated that Cirrus cannot commit to financing until it is assured that the project will move forward. He stated that the final permit to be approved is the air quality permit issued by DNREC, and that permit has been submitted and is currently under review. He added that there will be an additional public hearing during that process.

Hon. Sokola asked if the proposed jobs involved in the construction phase will be offered to out-of-state workers, or if preference will be given to Delaware companies. Mr. Marcozzi stated that much of the desired workforce is in Delaware, and that, thus far, there has been enthusiastic support for the project from the electrical trades.

Director Whaley asked what the estimated timeline for the project is. Mr. Marcozzi stated that there are two phases to the project, the first phase starting approximately 4 months following the approval of the air quality permit. He stated that main construction will last approximately 18 months, with an additional 3 months for commissioning, and a total of roughly 24-30 months before the facility is fully operational from the date of the issuance of the last permit. Mr. Marcozzi stated that the overall timeline is estimated at 3 years. Director Whaley asked if the application funding request is for the first phase of construction. Mr. Marcozzi stated that is correct because the related infrastructure would need to be constructed first. Mr. Ratchford asked if the Applicant anticipated returning to the State for further funding following the first phase. Mr. Marcozzi stated that this request will be the only financing request on behalf of the State.

Mr. Ratchford asked what information could be shared about the investors of the project, considering that the overall financing estimate is \$350 million. Mr. Silicato stated that he compares the project to the Amazon facility, and that, while he and the others love Delaware, it is understood that Middletown is not Charlotte, North Carolina or Dallas, Texas. He stated that, due to this fact, there is marketing to be done, and that the MTC project is being monitored around the country to gauge the economic pulse of Delaware and the potential to create similar opportunities in the state. He stated that it is part of the overall economic situation in the state, and that the welcoming, close-knit cooperation between the State of Delaware and the Town of Middletown helped push the project to the proposed area. He stated that he has invested \$50 million of his own money and helped to pull other investors into this particular project, and that there are other groups from other states that are willing to take the data center facility to their home market if the State chooses not to invest. Mr. Silicato stated that the investment stage is near completion, and reiterated that the Cirrus project is not connected in any capacity to the TDC project. He added that the people involved in the previous project were neither local nor invested, to which he is willing to put his reputation on the line regarding cooperation with the state.

Mr. Ratchford asked if the Applicant is still in the process of identifying investors for the project. Mr. Silicato stated that the investors have been identified, but the question is whether the investors want to fund the project outside of a group, bring in a partner, or talk to one of the larger investors about purchasing the site as a whole. He stated that he prefers not to discuss projects until there is a complete vision, and that he would want to be able to go before the investors and advise that there is a final permit at that time. He stated that he wants to assure the Committee that financing for the project is in order.

Director Whaley stated that she wanted to make it a condition of the grant that financing information be released to the Committee. Mr. Ratchford stated that he wanted to add the condition that permitting information also be released to the Committee before any State funding is released.

Mr. Silicato stated that he wanted to assure the Committee and the public that Cirrus does not want money from the State until there is a fully viable project that will have jobs, will be constructed, and will be financed. He stated that he understands that those conditions to the grant are to ensure that the State is protected.

Hon. Sokola stated that the grant includes the condition that it is an expense reimbursement. He stated that he has concerns about the fact that the operator of the facility is unnamed, and has seen examples of some facilities that do not do well with the public. He stated that he understands hesitation in naming the operator at this point in the project, but is reluctant to approve funding at this time and disapprove once an operator is named. Director Cohan stated that she assures the Committee of Mr. Silicato's word, stating that she has never had an issue with his development projects. Mr. Silicato stated that his reputation cannot be bought.

Hon. Sokola asked if there is currently a bandwidth issue in Middletown that necessitates the fiber optics, or is a need for greater capacity expected in the future. Mr. Marcozzi stated that the main fiber optic network for the Mid-Atlantic region, which operates roughly in the same pattern as the I-95 corridor and also along Route 1 in Delaware, does not service the Middletown area. He stated that Middletown would be connected through this project, and that the important factor about the data stream is reliability and redundancy. He stated that power failures to the data center would effectively lose the stored data, and that by adding to the data capacity of the area and establishing redundancy to both the data center and to the town, it would put Middletown at another level. He added that the Westown section of Middletown in particular has been pre-zoned for development, that the Town of Middletown has stated that it wants to invest in this type of development, and that by bringing massive amounts of data, reliable energy, and utilities for the area, it sets up Middletown for advanced development, allowing its residents to connect into that network. Mr. Marcozzi stated that the inclusion of the fiber optic network would also encourage additional fiber optic providers to the area, and, as a result, provide competition in order to prevent a monopoly.

Director Whaley asked legal counsel, Mr. Lewis, if he had any comments. Mr. Lewis stated that if the grant is approved, it would be subject to permit conditions within a certain time period, for example between 1 year to 18 months, that costs would be required to be identified on an itemized list, and that as it is paid down, the grant would be released. He stated that there would be approval by the State in regard to the providers or operators along those lines, consistent with prior grants. Mr. Lewis stated that he wanted to ensure the Applicant understood those conditions. Mr. Silicato stated that he is fine with the conditions; Hon. Branner stated that the situation is similar to when Amazon moved into the area.

Mr. Ratchford asked who the end users of the data center are. Mr. Silicato stated that it could potentially be government agencies, private institutions, hospitals, or internet providers such as Verizon and Comcast. Mr. Ratchford asked if it was correct that this data center would be considered cloud computing. Mr. Ramagano stated that is correct, and that as an example, Amazon utilizes between 10-20 data centers around the country in order to avoid storing all of its data in one stream. He stated that the Amazon data centers could be considered either primary

data centers or recording data centers, which are handled through a contract with a housing company that owns the contract and provides the facility. He added that the data center would mainly be utilized by high level enterprise clients, rather than by smaller, local businesses.

Director Whaley asked if there were any further questions from the Committee regarding Cirrus Delaware, LLC. There were none. Director Whaley asked if there was a motion from the Committee to approve the Application. Mr. Ratchford approved the motion, and Director Cohan seconded the motion.

Director Whaley asked if there were any public comments.

Mr. Wasileski, resident of Newark and president of the Delaware Coalition for Open Government (DelCOG), stated that he was encouraged by all the questions asked by the Committee today which address the concerns of his organization. He stated that DelCOG promotes the Freedom of Information Act (FOIA). He stated that following the Infrastructure Investment Committee meeting regarding the TDC project, at that time he spoke with a committee member, Hon. Venables, who advised that financial information on that project was never provided. Mr. Wasileski stated that in 2013 and 2014, DelCOG attempted through FOIA to learn the sources of financing for the TDC project, which were never determined, the project was eventually halted, and TDC was unable to pay its debts. He added that the negative effect the project had on vendors should raise a red flag for future similar projects, and that the Cirrus project is a comparable venture that has also not made its financing public. Mr. Wasileski stated that when taxpayer money helps to fund private enterprise, DelCOG believes that taxpayers have a right to know who is receiving their money, and that fiscal transparency is in the best interest.

Mr. Flaherty, member of DelCOG, stated that, while the civic organization does not endorse or oppose projects, it believes that transparency is in the public's best interest. He stated that, in reference to the Applicant's request, DelCOG recommends that prior to disbursement of public funds, state officials and agencies should perform the appropriate due diligence, adding that the Committee's goal of promoting economic development needs to be balanced against protecting the state treasury. He stated that disclosure of material facts should be part of the public record to ensure sound judgment in the decision-making process. Mr. Flaherty stated that DelCOG endorses the position that when taxpayer dollars fund a private investment, the public should know the material facts, and requests that the following questions be asked and the answers made public: 1) who are the title holders; 2) who are the beneficial owners; 3) how is the company funded, whether through debt, equity, or a convertible financial instrument; 4) what are the sources of the financing – is the money funded through a commercial or investment bank, a private equity venture capital, foreign direct investment, EB-5, etc.; 5) where is the money sourced, whether through an American or foreign country; and 6) does the business plan include selling the project to a third party in the future. Mr. Flaherty stated that amid Delaware's budget shortfalls, the Committee is entrusted with significant responsibility, and that DelCOG requests that the Committee proceed cautiously, discover the answers to the aforementioned questions, and undertake a rigorous assessment of the Applicant's finances and business plan. He added that the money to be distributed is the taxpayers money, that Delaware taxpayers deserve to know where the money is being disbursed and to whom, and that public disclosure helps to ensure that our tax dollars are spent wisely.

Mr. Morgan, resident of Newark, presented three articles in reference to data centers published in 2014. He stated that the first article includes an interview with Vinod Khosla, co-founder of Sun Microsystems, discussing the future of data centers and Mr. Khosla's advocacy to remove

personnel from those centers, citing the complexity of data management and the costs involved. He also presented an article from the *News Journal* that discussed the vacancy by Condé Nast of a data center located in Newark, in which the company transferred from a data center to cloud services. Mr. Morgan presented a newsletter from the organization Secure America's Future Economy, in which the CEO of TDC spoke to a local civic group and stated that, at that time, there were 600 data centers in the area and that the TDC facility could potentially replace all of those centers with considerable cost savings and environmental gains, which Mr. Morgan stated is consistent with national trends regarding data centers. He stated that large data centers result in a loss of high technology jobs, and that the potential net effect on the economy might be good for the surrounding area, but not for the rest of the state. He added that the Cirrus project might be good for Middletown, but could potentially have a negative effect on other data centers and employment throughout the state.

Ms. Willing, resident of Newark and member of Civic League for New Castle County, stated that she appreciated Mr. Wasileski's comments, particularly regarding Hon. Venables, as at the time of the TDC project, Hon. Venables insisted that the company had one year to present the financial information. She stated that, while it is encouraging to hear discussion regarding the condition to the grant that the Applicant is provided a limited timeframe to present the requested information, it would be appreciated if the vote would not proceed until it is established that that the financing will be brought forth. She stated that in the Cirrus grant application, several sections were answered as "not applicable," which lack public transparency and compliance. She added that, similarly, the section regarding the potential to lease was not completed, and that there are a number of important details regarding the project that are unanswered. Ms. Willing stated that, as a member of the public, she would feel much more comfortable about the project once the questions are answered and made public.

Mr. Sullivan, resident of Middletown, stated that in the Cirrus grant application, the North American Industry Classification System (NAICS) number provided (541990 – All Other Professional, Scientific, and Technical Services) does not best fit the proposed industry of the MTC facility, which he stated that NAICS code primarily covers tax accounting, bookkeeping, and computer systems design, as examples. He stated that the primary industry of the MTC facility, as stated by the Applicant, is cloud services. He stated that there are two other NAICS options (518210 – Data Processing, Hosting, and Related Services; and 221112 – Fossil Fuel Electric Power Generation) that he believes are more appropriate to the facility operations of data hosting and power generation. He stated that Cirrus has indicated that it intends to run 52.5 Megawatts of power 45% of the time, and that the power generation equipment is for backup. Mr. Sullivan stated that, at a previously held meeting, he and his neighbors have challenged the reliability claim made by the Applicant to build a peak shaving power plant in Middletown. He stated that the fact that the Applicant's promises have not yet been observed is relevant to today's meeting. He stated that the Applicant's fossil fuel generators will not be utilized for backup the majority of the time and that the generators will make a peak shaving, selling power back to the grid, which he believes will not remain in Middletown, as outlined by the Applicant. Mr. Sullivan stated that he is requesting that the Applicant provide diagrams to prove that the amount of power generated, as indicated in the proposal, will stay within the community. He added that the estimated number of construction jobs for the project has decreased since a previous meeting on April 1, 2016, from 2000 to the now proposed 750 jobs, and noted that Duffield Associates, partner for Cirrus, was involved with the TDC project.

Mr. Willis, resident of New Castle, thanked DEDO for conducting the public hearing in regard to Cirrus. He stated that the general motivation and purpose for having an economic development

office is to give government incentives to private entrepreneurs, and that there is no better example than a data center. Mr. Willis stated that he is a boilermaker by trade, and that when the term infrastructure is referenced, he does not think of roads and bridges, but rather data, internet, and power, as he believes that without the investment of reliable power one cannot have the infrastructures of data and the internet. He stated that the public has deemed that reliable data is at the ready at all times, and that thanks to the open public process, the underlying fundamental general structure of having a reliable, redundant generating source of power is not only essential, but important to having data and internet access. He stated that people of his professional background are having difficulties locating work in Delaware, and see the Cirrus project as a lifeline. He added that similar jobs are being offered in Pennsylvania and New Jersey, which offer greater pay, but that he would rather work here and have his tax dollars remain in Delaware. Mr. Willis stated that, from his experience working in those other states, if this state does not take the opportunity of the data center, Delaware will fall behind. He stated that he recently left a 760 Megawatt power plant, and that, in his experience, the amount of power proposed by the MTC facility is not significant enough to leave the town, let alone the state. Mr. Willis stated that, as an example, a year ago much of the power in Washington D.C. shut down, which demonstrates the necessity of reliable power, and that the concept of the data center and power plant is fundamental. He stated that Delaware needs the jobs, and he believes that the grant should be approved.

Mr. Harris, resident of Townsend, stated that the Delaware New Jobs Infrastructure Fund Grant Application states under the Certifications and Notarization to Applicants, Item 11, that “no funds may be used for speculative real estate ventures,” and that the Guidelines Governing the Practice and Procedure for Administering the Delaware New Jobs Infrastructure Fund, sections 4.2.2 and 4.2.2.3 state, “the following projects do not qualify for a grant: speculative real estate ventures.” Mr. Harris stated that Mr. Silicato indicated that there is a possibility of selling the project to a third party, and asked that if the sale should proceed, would the money issued by the grant then be returned to the State as the project would no longer be eligible for funding.

Director Whaley asked if there were any further public comments. There were none. Secretary Whaley asked if there were any changes to the previous motion following the public comments.

Mr. Ratchford asked for confirmation that funding is contingent upon the Applicant securing the air quality permit, that financial details are to be supplied to DEDO and confirmed secure, and that the grant is provided on a reimbursement basis for infrastructure. Director Whaley stated that is correct.

Hon. Johnson stated that the condition should be included that the grant request expires after 12 months, if required conditions have not been met by that time. Hon. Sokola stated that, in the interest of open transparency, the name of the operator should also be released.

Director Whaley asked if there was a motion from the Committee to approve the Application with the following conditions: 1) approval of the air quality permit from DNREC; 2) financing information provided to DEDO within 12 months following approval of the final permit, and that the financing information is approved by DEDO; 3) identification of the facility operator be made available; and 4) funding is provided on a reimbursement basis. Hon. Johnson recused himself.

Motion Made By: Mr. Ratchford
Seconded By: Hon. Cohan

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Approved By Vote of 4 to 0, one in absentia.

ADJOURNMENT

The meeting adjourned at 1:15 p.m.

Respectfully submitted,

Emily Baird, Portfolio Administrator

ESB

cc: Members of the Delaware Infrastructure Investment Committee
Director Bernice Whaley
Lawrence Lewis, DAG

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