

COUNCIL ON DEVELOPMENT FINANCE

May 23, 2016

PUBLIC HEARING 423

THOSE PRESENT:

Mr. Andrew Lubin, Chairperson
Honorable Nancy Cook
Mr. Richard Rowland
Sen. Nicole Poore
Mr. Tarik Haskins
Mr. Fred Sears
Mr. Jack Riddle
Director Bernice Whaley
Mr. Lawrence Lewis, DAG

Mr. Tim McLaughlin
Mrs. Rachael Mears
Ms. Kimberly Cruz
Mrs. Amber Mudri
Mrs. Christina Dirksen
Mr. Dave Archer
Ms. Patty Cannon, via conference call
Ms. Emily Baird

ALSO PRESENT: **The Chemours Company** –Mr. Mark Vergnano, Mr. Mark Newman, Mr. Greg Smith, Ms. Janet Smith, and Mr. Blair Althouse; **Perdue AgriBusiness LLC** – Mr. Peter Heller and Mr. Drew Getty; **ASPIRA of Delaware Charter Operations, Inc.** – Ms. Silvia Shin, Ms. Margie Lopez Waite, Mr. Greg Panchisin, Mr. Jorge Diaz, and Mr. John Buck; **Delaware Hospice, Inc.** – Mr. Cam Yorkston, Ms. Susan Lloyd, Mr. Laird Stabler, Ms. Sue Bernetich, Ms. Michelle Burris, and Mr. Joe Hofmeister; Hon. Edward Kee, Delaware Department of Agriculture; Ms. Stephanie Scola, Delaware Secretary of Finance Office; Ms. Erin Innes, Office of Management and Budget; Ms. Emilie Ninan, Ballard Spahr LLP; Ms. Lauren Kilroy, Saul Ewing; Ms. Melinda McGuigan, EDiS Company; Mr. Jeff Mordock, The News Journal; Mr. Randall Chase, Associated Press; Mr. Doug Rainey, Delaware Business Now; Mr. Jeff Stone, and Ms. Karen Nagler

LOCATION: Buena Vista Conference Center

TIME: 9:00 A.M.

CALL TO ORDER:

The meeting was called to order at 9:00 A.M. by Chairperson Lubin, on Monday, May 23, 2016.

OLD BUSINESS:

Mr. Lubin made a motion that the minutes of the April 25, 2016, Council on Development Finance meeting be approved as presented. Mr. Rowland approved the motion; Mr. Sears seconded the motion, which was then adopted by unanimous vote.

NEW BUSINESS:

The Chemours Company (“Chemours” or the “Applicant”) – The Applicant is requesting a Delaware Strategic Fund Performance grant in an amount not to exceed \$7,202,081.25, and a Delaware Strategic Fund Capital Expenditures grant in an amount up to \$695,000, for a total not to exceed \$7,897,081.25. The Applicant proposes to use the funds for the retention of 900 full-

time permanent Delaware positions, and costs associated with a headquarters project in Wilmington, Delaware.

Director Whaley presented this request to the Council. She stated that Chemours is a leading global provider of performance chemicals, and began operating as an independent company in July 2015 after separating from the E.I. DuPont de Nemours and Company (DuPont). She stated that the Applicant is looking to secure a location for its corporate headquarters, the search for which includes Delaware, Pennsylvania, and New Jersey. She added that the company currently occupies office space over the Hotel du Pont in downtown Wilmington, and that it is DEDO's hope that Chemours will keep its headquarters located within the city of Wilmington, as well as retain the current research and development functions taking place in Delaware. Director Whaley stated that if Delaware is chosen as the headquarters location for the Applicant, the state will retain 900 jobs, consisting of headquarters positions and research and development positions.

Mrs. Mears reviewed the 2015 annual report for Chemours which included historical periods prior to the spinoff with DuPont. She stated that records for those historical periods were r as if Chemours was an independent company during that timeframe. She stated that the Applicant reported a net loss of \$90 million for the 2015 fiscal year due to a decline in sales, employee separation costs, and interest expense charges. She stated that Chemours announced a cost reduction plan, which it expects to save \$500 million in expense improvement by 2017. She added that Chemours' current liquidity is 1.57 for the year ending 2015, cash measured \$366 million, and that it intends to fund short-term operations by cash generated from operations, asset disposition, and cash from its revolving credit facility. Mrs. Mears stated that Chemours' debt is sound, that it consists of a term loan and a revolving credit facility, initially issuing notes for private placement, and is in compliance with its current debt covenants. She stated that, as of March 31, 2016, Chemours realized \$40 million in cost reduction progress, and, by the end of 2016, expects a target of \$300 million in total cost reduction. She added that adjusted net income measured \$11 million. Mrs. Mears stated that Chemours' success will depend on its ability to deliver net margins, capitalize on new markets, execute its cost reduction plan, and meet debt obligations related to its agreements.

Director Whaley stated that a loss of the 900 jobs associated with the project will have a direct effect of the loss of 3,409 additional jobs, and a loss of total value added GDP contribution of \$554 million. She stated that DEDO staff favorably recommends approval of the application. She then introduced Chemours president and chief executive officer, Mr. Vergnano.

Mr. Vergnano introduced chief financial officer, Mr. Newman; head of logistics and real estate, Mr. Althouse; head of government affairs, Mr. Smith; and communications leader, Ms. Smith. Mr. Vergnano thanked the Council for its time, and for considering the Chemours application. He stated that the intention for the application request is to put Chemours in a position to keep its headquarters in Wilmington. He stated that the Applicant is positioned to be very successful as a \$6 billion chemical company, with world class assets, breakthrough technology, leading positions in global markets, and the drive to deliver higher margins for what it terms higher value chemistry. He stated that Chemours was created less than a year ago from the spinoff with DuPont, and faced significant challenges related to capital structure. He added that, as a result, a five-point transformation plan was immediately put into effect in order to focus on reducing costs, growing market position, optimizing its portfolio, and enhancing the organization. Mr. Vergnano stated that there has been great progress with this plan, reducing costs over the last year by \$100 million, and are on track to take in over \$200 million in costs savings by restructuring the organization. He stated that Chemours has also made significant capital investments to grow

its market position. He added that the Applicant is very proud of what it has already been able to achieve, which he credits to the employees and investors. Mr. Vergnano stated that Chemours has struggled to achieve solid ground, and believes that the company has achieved stability at this point, but added that there is no intention to stop. He stated that Chemours not only has the ability to be good, but the ability and the drive to be great. He stated that the workforce is superb, the technologies are among some of the best in the world, and that the growth strategy is fueled by global trends such as climate change, urbanization, and the rise of the middle class. Mr. Vergnano stated that Chemours intends to use all these advantages to create a world class chemistry company that also contributes to a vibrant local business community.

Mr. Vergnano stated that Chemours has embraced rapid change, and is staying open-minded about future possibilities regarding the headquarters location. He stated that it has followed a disciplined process to evaluate a variety of possible locations with a range of criteria, including space to accommodate the current company and its expected growth, a location with a reasonable commute for the employees, and a good fiscal decision for the company. He stated that with all of these criteria, the Applicant is pleased that Wilmington has remained one of the top two choices for a headquarters location, despite it not being a cost-effective option. Mr. Vergnano thanked the legislature for the Delaware Competes Act which has helped significantly with its decision-making, and that the application package presented before the Council today is another important part of the process. He added that approval of the request would assist Chemours in coming closer to a final decision. Mr. Vergnano stated that keeping Chemours in Wilmington would bring significant benefits to both the city and to the state, by retaining 900 employees in Delaware by the end of 2020. He stated that those employees include senior executives, scientists, business leaders, attorneys, engineers, and other professionals, which would bring tax revenue and continued employee patronage of local businesses. He added that once a headquarters location is chosen, the space is expected to be renovated to very modern standards reflective of a state-of-the-art business environment. Mr. Vergnano stated that Chemours is excited to stay in Wilmington, that its first choice is to stay in the city, and that a favorable recommendation by the Council will bring the company one step closer to being able to do that.

Mr. Lubin asked if there were any questions from the Council regarding The Chemours Company.

Mr. Sears stated that, in addition to the benefit to local businesses, the volunteerism by Chemours employees is valuable to the community. Mr. Sears asked if the rationale behind closing the Edgemoor facility could be explained. Mr. Vergnano stated that the Edgemoor facility is the oldest and least flexible, and that it was not in the best interest of Chemours to continue to invest in the Edgemoor plant.

Sen. Poore asked what the deadline is for making the commitment to a headquarters location. Mr. Vergnano stated that it is the Applicant's intention to make a public announcement by October 2016. He stated that part of the parting gift with DuPont was the DuPont building in Wilmington, so that there is a location in place for the potential headquarters, but that the building requires extensive renovations, adding that contracts with developers and the city would need to be established. He stated that he hopes those details will be worked out by this summer, with an announcement in the fall.

Senator Poore asked if the money to be invested in the network and infrastructure is due to the age of the building or because the interest is to invest in new models. Mr. Vergnano stated that

the upgrades are being done for both reasons, as Chemours wants to bring the headquarters to a modern standard reflective of a global business.

Mr. Riddle asked how many employees are in the state today. Mr. Vergnano stated that it was approximately 1,000 between the shared DuPont facilities. Mr. Riddle asked Director Whaley if the proposed grant was similar to previous grants in regards to clawbacks. Director Whaley stated that is correct.

Mr. Rowland asked if the GDP figure was an annual number. Mrs. Mears stated that number was reflective of the amount that would be lost as a result of the 900 employees leaving the state. Director Whaley added that it would be a one-time impact.

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

Motion Made By: Mr. Sears
Seconded By: Mr. Haskins

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 \$20,000, 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 Mrs. Bernice Whaley, Chairperson, The Delaware Economic Development Authority, approval of a Delaware Strategic Fund Performance grant in an amount not to exceed Seven Million Two Hundred Two Thousand Eighty One Dollars and Twenty Five Cents (\$7,202,081.25), and a Delaware Strategic Fund Capital Expenditures grant in an amount not to exceed Six Hundred Ninety Five Thousand Dollars (\$695,000), to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including May 22, 2017.

Approved By Vote of 7 to 0.

Perdue AgriBusiness LLC ("Perdue" or the "Applicant") – The Applicant is requesting a Delaware Strategic Fund Performance grant in an amount not to exceed \$1,331,363, and a Delaware Strategic Fund Capital Expenditures grant in an amount up to \$1,500,000, for a total not to exceed \$2,831,363. The Applicant proposes to use the funds for costs associated with the relocation of its headquarters to Delmar, Delaware.

Director Whaley presented this request to the Council. She stated that Perdue began working with DEDO several years ago and has been exploring locations for its headquarters, ultimately choosing a greenfield in Delmar, Delaware for its facility. She stated that Perdue is a group of six business units with domestic and international food, feed, organic fertilizer, and biofuel industries, operating more than 70 facilities in 12 states, and processes, trades and transports agriculture products locally, regionally, and internationally to more than 43 countries around the world by utilizing an extensive logistics support system.

Mrs. Mears stated the applicant's financial information was consolidated with its parent company, Perdue Farms, Inc. She stated that the current ratios regarding liquidity were healthy over the review period between 2014 to 2016, and that the company's inventories comprise 68% of its current assets, adding that rises and falls in inventories lead to minor fluctuations in total current assets over the review period. She stated that the current ratio measured 1.50 as of March 2016. She stated that sales declined 5% between 2015 to 2016; Perdue Farms, Inc. continues to increase profitability due to net gains on sales of assets, favorable changes in restructuring charges, and declines in interest expenses, adding that the net margin was 2.40 as of March 2016. Mrs. Mears stated that operational efficiency and leverage align with industry averages, and that, overall, Perdue Farms, Inc. reports healthy liquidity levels increasing net margins and efficient operational measurements.

Director Whaley stated that DEDO is excited about Perdue establishing its headquarters in Sussex County, and that staff favorably recommends approval of the application. She then introduced project manager, Mr. Heller, and the Secretary of the Delaware Department of Agriculture, Hon. Kee.

Hon. Kee stated that Perdue encompasses much more than just chicken, including grain production and recycling agricultural products to help with nutrient management. He stated that Perdue is one of the top producers in the world of grain, and that the partnership between Delaware and Perdue solidifies the agribusiness base, providing multiple opportunities for farmers associated with the agribusinesses. He stated that, for example, one billion dollars in sales expands to an estimated seven billion dollars in economic activity throughout the state. Hon. Kee added that Perdue Farm, Inc. now employs more in Delaware than in any of the other 12 states in which it operates, and that by relocating the AgriBusiness headquarters to Delmar, it solidifies the partnership and can make a real difference for Delaware's farmers, agribusiness, and the state in general.

Director Whaley thanked Hon. Kee for his statements, and introduced associate counsel for Perdue, Mr. Getty. She asked Mr. Heller to speak on behalf of the project.

Mr. Heller stated that the Applicant is an independent operating company from Perdue Farms, Inc., and is one of the country's leading merchandisers, processors, and exporters of agricultural products. He stated that Perdue's current headquarters is located in Salisbury, MD, and that with approval of the application and moving the headquarters to Delmar, it would include the transfer of approximately 150 employees and the construction of 45,000 square foot office facility. He stated that Delaware has always been a true business partner with Perdue, that the Applicant is excited to support the local economy, and look forward to the move to Delaware. He added that Perdue appreciates the aggressive business attitude of Delaware and thinks it is a great match.

Mr. Lubin asked if there were any questions from the Council regarding Perdue AgriBusiness LLC.

Sen. Poore stated that she is excited to see 152 jobs back in Delaware in a well-needed industry; she asked what qualifications would be required between the tiered jobs listed in the application, and how that relates to degrees and specialties of the employees. Mr. Heller stated that, starting with tier 2, the positions would require college graduates, and that with tier 5-7, advanced degrees would be preferable.

Mr. Lubin asked that, in the terms of the quantitative assessment of the 152 jobs, how many of those are current Delaware residents. Mr. Heller stated that the most recent numbers indicated that 145 employees are current residents, and that there has been a significant increase over the previous four years of new hires. He stated that the advantages of living in Delaware, particularly financially, are compelling, and that the majority of new hires have opted to look for residency in the state.

Mr. Riddle asked if the amount requested in the application is a high-end figure to cover the significant costs of the serious commitment of moving the technology from Salisbury to Delmar. Mrs. Mears stated that the amount is the maximum amount available. Mr. Riddle asked if moving the technology and the construction of the building are the two main composites for the grant, or if there was another factor to be included. Mr. Heller stated that, in addition to the construction of the headquarters facility, a significant amount of money is necessary for the installation of drainage ponds on the campus.

Mr. Riddle asked what the timeline for the project is. Mr. Heller stated that the goal is to have plans complete by the end of 2016, and to break ground for construction either late this year or early 2017.

Mr. Lubin asked if the Applicant has the title for the land proposed for the headquarters. Mr. Heller stated that it has purchased the property, and does have the title to the land.

Sen. Poore asked if there are clawback provisions outlined in the grant, specifically in regard to the employee benchmarks. Mrs. Mears stated that is correct.

Mr. Riddle stated that he would like to see the number of jobs required by the grant expanded to 200. Sec. Kee stated that the growth rate for employees with Perdue has tracked positively, and that 200 employees are well within the realm of possibility down the road.

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

Motion Made By: Sen. Cook
Seconded By: Sen. Poore

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 \$20,000, 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 Mrs. Bernice Whaley, Chairperson, The Delaware Economic Development Authority, approval of a Delaware Strategic Fund Performance grant in an amount not to exceed One Million Three Hundred Thirty One Thousand Three Hundred Sixty Three Dollars (\$1,331,363), and a Delaware Strategic Fund Capital Expenditures grant in an amount not to exceed One Million Five Hundred Thousand Dollars (\$1,500,000), to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including May 22, 2017.

Approved By Vote of 7 to 0.

ASPIRA of Delaware Charter Operations, Inc. ("ASPIRA" or the "Applicant") – The Applicant is requesting that the Delaware Economic Development Authority (DEDA) act as a conduit issuer of tax-exempt bonds not to exceed \$25,000,000. The Applicant proposes to use the funds for one or more of the following purposes: i) financing all or a portion of the costs of the construction of the Capital Project (as defined herein); (ii) funding of capitalized interest during construction; (iii) refunding of certain indebtedness of ASPIRA, proceeds of which were used, among other things, to finance a portion of the costs of acquiring, constructing, improving, operating and equipping ASPIRA's current facility located at 326 Ruthar Drive, Newark, Delaware (the "School Facility"); (iv) funding a debt service reserve fund deposit; and (v) financing various costs incidental to the financing, including costs of issuance (collectively, the "Project") The project is currently owned by the Applicant and operated as a charter school in Newark, Delaware. No funds will be provided by the State of Delaware towards the project.

Mr. Archer presented this request to the Council. He introduced the director of school operations, Mr. Panchisin; head of school, Ms. Lopez Waite; treasurer, Mr. Diaz; legal counsel, Ms. Shin; and financial advisor, Mr. Buck. He stated that ASPIRA opened in 2011 with over 300 students enrolled in grades Kindergarten through 5, and that in each year since the school has added another grade, completing its growth to grades Kindergarten through 8 in the 2014 to 2015 school year. He stated that ASPIRA is now ready to outfit the remaining empty space and upgrade existing spaces in the building, including the conversion and equipping of approximately 38,004 square feet of space into a cafeteria equipped with a full kitchen, auditorium, gymnasium, classrooms, support areas, and various instructional spaces. He added that there will also be renovations and improvements throughout the facility, and, when completed, the facility will consist of 122,080 square feet. Mr. Archer stated that additional proceeds from the revenue bonds will be applied to one or more of the following purposes: i) funding of capitalized interest during construction, ii) refunding of prior debt, iii) funding a debt service reserve fund deposit, and iv) financing various costs incidental to the financing, including costs of issuance.

Mrs. Mears stated that, in regards to the recommendation, ASPIRA's counsel believes that it will receive its credit rating at the end of May 2016, and that there is a chance that the rating could be below investment grade. She stated that, based on DEDO's long-standing policy, staff recommends approval of acting as the conduit issuer contingent upon an investment grade rating. Mrs. Mears introduced legal counsel for ASPIRA, Ms. Shin.

Ms. Shin stated that, as a conduit issuer, it is her obligation to remind the advisory council that there is no bond cap that will be included in the agreement, and that the State and the issuer are not responsible. She stated that ASPIRA's bottom line will cover the debt service, and that there will not be any impact to the State's credit rating. Ms. Shin then introduced financial advisor for ASPIRA, Mr. Buck.

Mr. Buck stated that his career experience consists solely of charter school facility finance over the previous 15 years, that his firm is currently focused on tax exempt bonds, and that he wanted to come before the Council with ASPIRA in order to ask for approval of the application request without contingency. He stated that the charter school bond market is very different from the standard market, and has become a reliable source of financing for charter schools. He stated that non-investment grade ratings for charter schools are a common occurrence, and that there can be a skewing of the rating given the newness of the charter school sector. He stated that the expected rating for the Applicant will be either BBB- or BB+, which are the cutoff points for investment and non-investment grades, respectively. He added that this rating does not always indicate the credit quality of the school, and that the debt service coverage is not as high as what the rating company would require in order to award a more favorable rating. Mr. Buck stated that, as a result of the strict rating guidelines, he has advised the Applicant that there is a 60% chance it will receive a non-investment grade rating, but that even the lowest end of the investment grade rating spectrum is still considered a high rating for a charter school in relation to the nature of its operations and the fact that the industry has only been in existence for approximately 20 years. He stated that, in his experience in issuing bonds for charter schools around the country, there has never been a restriction by the conduit issuer on the borrower due to the understanding that the issuer is only acting as a channel to allow the borrower access to the bond market, that there is no formal role on the part of the issuer to support the credit, and that he believes that the restrictions place an undue burden on the borrower in relation to timely accessing the bond market. Mr. Buck stated that the bond market is currently very strong, which is ideal for the Applicant, and that construction on the school needs to begin as soon as possible in order to be completed prior to 2017 school year, which will only be possible with approval of the application request. He stated that, if the rating is below investment grade, the recommendation is that the denominations should be increased, the sale of the bonds should be limited to qualified institutional buyers and credited investors, and that the documentation includes a prominently displayed transfer restriction.

Mr. Archer introduced the head of school for ASPIRA, Ms. Lopez Waite, who is willing to speak on behalf of the school.

Ms. Lopez Waite stated that ASPIRA is an organization that was created in New York City around 1960 by a group of educators that wanted to encourage students to stay in school and enroll in college. She stated that, here in Delaware, a group of advocates came together and worked with the community in order to establish an ASPIRA chapter. She stated that each ASPIRA charter is independently operated, but that there is a national presence in Washington D.C. She stated that, as a founder of ASPIRA in Delaware and also a graduate of the Delaware public school system, there are some challenges particular to English as a second language students that ASPIRA intends to address by encouraging and embracing bilingualism and biliteracy. Ms. Lopez Waite stated that the efforts of the school are rooted in the Hispanic community, that the school is diverse, and that the waiting list exceeds enrollment each year. She stated that the school's focus is to build a strong educational foundation in order to drive the future labor force, regardless of the field. She stated that as founders and investors of the school,

the board has always been good stewards of the financing, and that the goal is to provide the school that the students deserve.

Mr. Lubin asked if there were any questions from the Council regarding ASPIRA of Delaware Charter Operations, Inc.

Mr. Sears asked if there is an intention in the future to expand the school beyond the 8th grade. Ms. Lopez Waite stated that ASPIRA is currently working with the Christina School District, but would like to see its student have the ability to go to any high school and succeed. Mr. Sears asked if the students that have graduated from the ASPIRA program are tracked for their later success. Ms. Lopez Waite stated that is correct.

Mr. Haskins asked if the ASPIRA students were outperforming other bilingual students in the public school system. Ms. Lopez Waite stated that the students are compared against the state average, as well as students from both the Christina and Colonial school districts, and that the ASPIRA students are outperforming on average. She added that the student's progress is monitored, and that changes are made accordingly in order to help them succeed.

Mr. Rowland asked if the BBB- rating was the lowest tier of the investment grade ratings, and if there is a quantifiable floor that would be acceptable for the school to indicate that it is suitable to proceed with the process. Mr. Buck stated that his recommendation would be in the BB category. Mr. Rowland asked that, if the rating was stated as being non-investment grade, would that delay construction. Mr. Buck stated that he does not expect that, and that investors typically do not have a problem with non-investment grade ratings for charter schools. Mr. Rowland asked if there was a letter rating, plus or minus, with which the school would feel comfortable. Mr. Buck stated that if it was inclined to have a restriction, below BB- would be his recommendation. Mr. Rowland asked that if the rating came in below BB-, would the application then no longer be eligible.

Sen. Cook stated that she does not believe that there is a separate policy for charter schools. Mr. Lewis, legal counsel to the Authority, stated that, after conferring with his predecessor, it was the State's policy not to invest in below investment grade, which is a general recommendation and not specific to charter schools. He stated that there was a policy at one time not to invest in charter schools, and, to his knowledge, since that time the state has not invested in any charter school below investment grade. He added that there was a charter school, Odyssey Charter School, that came before the Council which was nonrated with restrictions proposed by the applicant. Mr. Lewis stated that he reviewed the Delaware Code and regulations, and that there is currently no prohibition against recommendations below investment grade. Mr. Lubin asked, in regards to the Odyssey process, are the restrictions being discussed today executable with the State as the conduit to provide the Applicant that funding flexibility. Mr. Lewis asked Mr. Lubin to rephrase the question. Mr. Lubin stated that, since Odyssey was unrated, is there a part of the approval process that would allow that funding. Mr. Lewis stated that the standards that were set are that the bonds were available to qualified and accredited institutions, and that there was a monetary amount established. Mrs. Mears stated that the accreditation relates to the salary requirements of the potential buyers.

Sen. Cook stated that, if there is to be a change in policy, that the Council would require a very clear discussion because the application presented today opens a door that the Council may not be willing to go through, which has nothing to do with the school itself.

Sen. Poore asked, since the Council may be uncomfortable making a decision and there is a possibility that the rating may be below investment grade, is it possible to wait until there is an answer on the rating. Mr. Buck stated that there would be a ripple effect on the funding, particularly with the construction process, which could drive the Applicant to look for another issuer. Sen. Poore asked, directly to the ASPIRA board, if the decision to wait one month once the investment rating was acquired would drastically affect the process. Mr. Diaz stated that the work established with the contractor would be affected, to the point where it could delay opening for the 2017-2018 school year, and that the Applicant may have to consider another state as an issuer.

Mr. Sears asked if there is always a market for bonds. Mr. Buck stated that is correct. Mr. Sears stated that he understands previous policy and that there is no liability for the state, and, due to this fact, why would the Council deny recommendation for the application request. Mrs. Mears stated that the state's liability is not in regard to the credit position, but rather the perception of public opinion, and the question comes as to whether this one-time application request fits the policy for approval. She stated that DEDO believes in the project, but that the scope is broader, and that if the Applicant is forced to an out-of-state issuer, the loss to Delaware will be the fee. She stated that DEDO was provided with a sense of comfort that the project could be done with or without the State's assistance, and has to consider how this project could potentially change the range of the portfolio.

Mr. Sears asked what the difference is between ASPIRA and Odyssey, which was nonrated. Mrs. Mears stated that other state agencies were able to provide guidance as the project unfolded, that the historical financials for that institution were a broader scope than for ASPIRA, and that there was a longer history as a charter school. She stated that it must be considered in a broader perspective that, if this application is recommended for approval, what that will mean for the next applicant that is below investment grade.

Mr. Riddle stated that, for another authority with which he is a member, there was a similar situation with a below investment grade applicant. He stated that the authority listened to the financial advisor of the issuer, and then contracted with a separate firm for a non-borrower's opinion of the project. He added that financing was eventually provided to the applicant, after the authority contracted with another company in order to validate its assumptions. Director Whaley asked what the restrictions were in that particular situation. Mr. Riddle stated that there were similar boundaries. Mrs. Mears asked, in that situation, which entity paid for the services of the non-borrower advisor. Mr. Riddle stated that there was a reimbursement agreement from the issuer.

Sen. Cook asked if there was a previous charter school to come before the Council that had similar contingencies. Mrs. Mears stated that there was an applicant in 2007 that sought issuance outside of the state, but did not know the rating. Ms. Shin stated that particular project did not have contingencies, but that there was a period of hesitancy of approval which drove the applicant to finance their project outside the state at a much higher cost. Mr. Lewis stated that one of the issues is whether the financing is variable or fixed, depending on the actual terms, and that with fixed financing there is less of a chance with a conduit.

Chairperson Lubin asked if there was a motion to recommend approval for the application. Sen. Cook approved the motion with the contingency of the investment grade rating; Mr. Riddle seconded the motion. Mr. Lewis stated that there is a motion on the floor that has been seconded, and indicated that, at this point, there should be a call for a vote. He stated that, depending upon

the outcome of the vote, either the motion will be enacted if approved, or, if not, there can be a call for another motion.

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

Chairperson Lubin asked for a vote from the Council: Sen. Cook, Mr. Riddle, and Mr. Haskins voted aye; Mr. Lubin, Sen. Poore, Mr. Rowland, and Mr. Sears voted nay.

Mr. Lewis stated that it is the Chairperson's discretion to open the floor for further discussion, or call for another motion. Chairperson Lubin asked if there is another motion from the Council. Mr. Rowland approved the motion, deleting the investment grade rating, substituting it with a minimum rating of BB-, and further stipulating \$250,000 minimum denominations, and limited purchasers to qualified investment institutions and accredited investors.

Mr. Lewis restated that the motion is to reduce the required grade to BB- subject to with minimum denominations of \$250,000. Sen. Poore asked Mrs. Mears to repeat her comments. Mrs. Mears stated that it should be included that sale be limited to accredited investors. Mr. Buck added accredited investors and qualified institutional buyers.

Mr. Lewis restated that the motion is for qualified institutional buyers and accredited investors at a \$250,000 minimum denominations with a BB- rating. Mr. Rowland approved the motion, and Mr. Sears seconded the motion.

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

Chairperson Lubin asked for a vote from the Council: Mr. Lubin, Sen. Poore, Mr. Rowland, Mr. Sears, and Mr. Haskins voted aye; Sen. Cook and Mr. Riddle voted nay.

Director Whaley thanked the Council for its consideration.

Motion Made By: Mr. Rowland
Seconded By: Mr. Sears

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: 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 Mrs. Bernice Whaley, Chairperson, The Delaware Economic Development Authority, approval of the request that the Delaware Economic Development Authority (DEDA) act as a conduit issuer of tax-exempt bonds not to exceed Twenty Five Million Dollars (\$25,000,000), contingent upon qualified institutional buyers and accredited investors at a \$250,000 minimum denomination with a BB- credit rating, and the approval remaining in effect through and including May 22, 2017.

Approved By Vote of 5 to 2.

Delaware Hospice, Inc. (“Delaware Hospice” or the “Applicant”) – The Applicant is requesting a Delaware Strategic Fund Performance grant in an amount not to exceed \$124,312.50. The Applicant proposes to use the funds for working capital and to offset expansion associated facility and equipment costs. The Performance Grant amount is based on the creation of 21 permanent full-time Delaware positions at its new Hospice Center located in Newark, Delaware.

Ms. Cannon presented this request to the Council. She stated that the project will create 52 jobs at the proposed New Castle County facility, although only 21 of those jobs meet the qualifications for incentives. She stated that it has been an honor and privilege to work with Delaware Hospice on this project, and that DEDO staff favorably recommends approval of the application.

Ms. Cruz stated that during financial analysis, she reviewed audited financial statements from 2013 to 2015, proforma income statement between 2016 to 2021, and 2016 financial statements for six months ending March 31, 2016. She stated that the Applicant’s chief source of revenue is through Medicare reimbursements, major expenses have decreased year-over-year, and its financial sustainability improved significantly between 2013 to 2015, transitioning from operating losses and negative net margin to operating income and positive net margin for 2015. She stated that for the 2013-2015 periods, the Applicant improved its overall financial position and liquidity, reflecting improvements in its balance sheet, current and cash ratios, with increasing levels of positive working capital. She added that Delaware Hospice has strengthened its ability to cover its debt, and was not highly leveraged over this period. She stated that its debt service coverage ratio moved from negative to positive between 2013 and 2015. Ms. Cruz stated that its debt-to-equity and debt-to-asset ratios were also favorable. She stated for the review period ending March 31, 2016, the Applicant is financially viable, and is on target to meet 2016 projections. She stated that it anticipates remaining sustainable between 2016 and 2021, with increases in net margin. Ms. Cruz introduced the president and CEO of Delaware Hospice, Ms. Lloyd.

Ms. Lloyd stated that the proposed project is the second of its kind for Delaware, the first being built in Milford in 2008, which has seen tremendous success. She stated that the Applicant is excited to bring that success to New Castle County, that the property has been purchased, and Delaware Hospice is currently in the process of a fundraising campaign for additional funding and commercial financing. She stated that the project is similar to the one currently in Milford, a 116-bed facility, with the focus being for patients and their families as a home away from home.

Mr. Lubin asked if there were any questions from the Council regarding Delaware Hospice, Inc.

Sen. Poore stated that she is thrilled for this opportunity; she stated that it is great to know that the facility is available, as she has had personal experience with hospice care, and looks forward to supporting the project.

Mr. Sears asked about the success of the fundraising campaign. Ms. Lloyd stated that there is great leadership on the campaign, and introduced Mr. Yorkston.

Mr. Yorkston stated that he has worked with Delaware Hospice for a number of years, and that this campaign has excellent opportunities to reach its goal. He stated that the Applicant remains very positive about the project, and it has received much support from the community. He added that, particularly, once people visit the facility in Milford, the project sells itself.

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

Motion Made By: Sen. Poore
Seconded By: Mr. Riddle

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 \$20,000, 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 Mrs. Bernice Whaley, Chairperson, The Delaware Economic Development Authority, approval of a Delaware Strategic Fund Performance grant in an amount not to exceed One Hundred Twenty Four Thousand Three Hundred Twelve Dollars and Fifty Cents (\$124,312.50), to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including May 22, 2017.

Approved By Vote of 7 to 0.

EXECUTIVE SESSION:

Sen. Poore made a motion that the Council go into Executive Session pursuant to 29 Del. C. §10004(b) to conduct a strategy session for the purpose of obtaining legal advice or opinion from an attorney-at-law, with respect to pending or potential litigation related to collection issues, which if conducted in an open meeting, would have an adverse effect on the bargaining or litigation position of the Authority, which do not constitute public records within the meaning of 29 Del. C., § 10002(1). The motion was seconded by Mr. Riddle, which was then adopted by unanimous vote.

Mr. Riddle made a motion that the Council go out of executive session. The motion was seconded by Mr. Rowland, which was then adopted by unanimous vote.

ADJOURNMENT

The meeting adjourned at 11:00 a.m.

Respectfully submitted,

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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, June 27, 2016 at 9:00 A.M. at the Buena Vista Conference Center in New Castle, Delaware.