

COUNCIL ON DEVELOPMENT FINANCE

October 24, 2016

PUBLIC HEARING 426

THOSE PRESENT:

Mr. Andrew Lubin, Chairman
Honorable Nancy Cook
Mr. Tarik Haskins
Mr. Jack Riddle
Mr. Richard Rowland
Mr. Fred Sears
Honorable Bryon Short

Honorable Bernice Whaley, DEDO Director
Ms. Kimberly Cruz
Mrs. Jodie Green
Mrs. Leilani Decena-Shepherd
Ms. Barbara DeHaven
Mr. Lawrence Lewis, DAG
Mr. Tim McLaughlin
Mrs. Amber Mudri
Mr. David Root
Mrs. Jordan Schulties

ALSO PRESENT:

SUN Behavioral Health –

Mr. Steve Page, CEO
Mr. Eduardo Medeiros, CFO

Datwyler Pharma Packaging USA, Inc. –

Mr. James Fritzen, Head of Finance
Mr. David Clark, VP of Operations

Mr. Dave Cook, The Flynn Company
Mr. Joe Gallagher, The Flynn Company
Mrs. Melinda McGuigan, EDiS
Erin Innes, Office of Management and Budget

LOCATION: Buena Vista Conference Center, New Castle, DE

TIME: 9:36 a.m.

CALL TO ORDER:

The meeting was called to order at 9:36 a.m. by Council Chairman Mr. Andrew Lubin, on Monday, October 24, 2016.

OLD BUSINESS:

Mr. Andrew Lubin made a motion to approve the minutes of the September 26, 2016 Council on Development Finance meeting as presented. Mr. Richard Rowland approved the motion; Representative Bryon Short seconded the motion, which was then adopted by unanimous vote.

NEW BUSINESS:

SUN Behavioral Health (“SUN” or the “Applicant”) – The Applicant is requesting a Strategic Fund Performance Grant in the amount of up to \$708,367 for the creation of up to 133 new full-time Delaware positions at its proposed new 90-bed psychiatric hospital in Georgetown, Delaware.

Mr. David Root, DEDO's Sussex County Business Development Leader, presented the request to the Council. He said DEDO has been working with SUN Behavioral Health executives for over a year. The Applicant is a national healthcare company, whose acronym stands for "Solving Unmet Needs." SUN specializes in the development and management of behavioral health facilities and partners with communities to address mental illness and addiction issues. Mr. Root mentioned the company received approval from the Delaware Health Resources Board to build the psychiatric hospital in Georgetown, which will be open 24/7 for 365 days a year. He explained that SUN will offer specialized programs for all ages, based on the patient's needs. The company plans on investing approximately \$34 million towards the construction of the new inpatient facility, which will be called SUN Behavioral Delaware. He said area medical hospitals, including Nanticoke Healthcare, Beebe Healthcare, and BayHealth support the project. SUN Behavior Delaware is anticipated to open in April 2018 and will employ 133 full-time professional jobs, including nurses, CNAs, social workers, kitchen staff and maintenance crews.

Mrs. Jordan Schulties, DEDO's Capital Resources Director, presented the financial status of this project. She explained that DEDO reviewed the 2013-2015 financial statements for SUN Behavioral HoldCo, LLC, the parent company. She also said the company provided her 2016 YTD financial information, as well as the SUN's financial projections through 2022. Mrs. Schulties said the company appears to be moving on the right track to creating a financially sustainable operation.

Overall, SUN's financial information is typical for that of a startup company. According to Mrs. Schulties, the Applicant is still heavily in the ramping up phase, as several hospital projects have either just finished or will be finishing soon. Controlling costs will be critical to its operations. The proposed job incentive is relatively low risk for DEDO because it is performance based. The remaining risk is mitigated by the fact that the company appears to have cash-on-hand as well as the ability to raise additional capital in order to sustain operations.

Mr. Steve Page, CEO of SUN Behavioral Health, emphasized that the company received overwhelming positive support from the local medical community because there is a significant need for the kind of services SUN can provide to Sussex County. He explained that not only will the company provide services for those suffering mental illness and addiction disorders, SUN will also bring in a new influx of professionals to the community, like specialized clinicians with outpatient practices. Mr. Page emphasized that if awarded the money, the funds will go towards hiring, educating, training and community services.

According to Mr. Page, SUN Behavioral Delaware, the subsidiary of SUN Behavioral Health, will buy and own the land and the building. He said the project does not cost as much as a hospital because the Georgetown facility will not have medical equipment and amenities, such as MRI machines, lead walls, or an operating room. He compared it to a nursing home with hallways lined with private patient rooms. He said each room will have its own bathroom. Some common areas will include a kitchen, a dining room, a pharmacy, a gym, and outdoor courtyards.

Mr. Page said that of the \$34 million in costs, \$20 million will go towards the mortgage and the rest is equity and cash raised from investors. He also said that 50% of SUN's payment stream will come from Medicare and Medicaid and the other 50% will be commercial sources. He stressed that the hospital does not intend to receive private pay.

In response to a question posed by Mr. Rowland, Mr. Page said its private equity investors have a 10-year horizon, in which they will expect some liquidity. The last time the investors sold to another hospital system was in 2012.

Chairman Lubin shared his concern about awarding a grant to SUN because of the possibility of the company's exit strategy, which he believes may benefit the company's equity investors. Mr. Page responded by saying that the company would consider the option of taking a DEDO loan rather than a grant.

Mr. Rowland recommended that if there was a change of control or sale within five years, SUN would get a 100% claw back; at six years 80%, 60%, 40%, 20% after subsequent years. Nothing after the 10th year.

Mr. Lubin summarized the Council's recommendation to propose grant funds for up to \$708,367 with two negotiated claw backs: one for the creation of up to 133 new full-time Delaware positions and the second on the basis of change of control or sale of ownership, of which SUN Behavioral Health will have a 100% claw back up to five years and will decrease 20% a year for subsequent years, to par at the end of 10 years.

Mr. Lewis included that the Applicant provide documentation to DEDO that the Applicant has been approved by all health care regulating authorities.

Chairman Lubin called for a motion regarding these recommendations.

Motion Made By: Mr. Fred Sears
Seconded By: Mr. Jack Riddle

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

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-Hundred-Eight Thousand Three-Hundred-Sixty-Seven Dollars (\$708,367), based on the creation of up to 133 full-time Delaware positions at its proposed new 90-bed psychiatric hospital in Georgetown, Delaware, subject to the Applicant providing satisfactory

documentation to DEDO that the Applicant has been approved by all health care regulating authorities. The Grant will further be subject to a negotiated claw back provision based on any change of control by the Applicant during the term of the agreement up to 100% if such change occurs within five-years, then decreasing annually 20% per year for subsequent years, to par at the end of 10-years, contingent upon the approval remaining in effect through and including October 23, 2017.

Approved By Vote of 7 to 0.

Datwyler Pharma Packaging USA, Inc. (“Datwyler” or the “Applicant”) – The Applicant is seeking a Strategic Fund grant in an amount up to \$3,128,715 for the creation of 108 new full-time permanent Delaware positions as it builds its U.S. headquarters and manufacturing facility in Delaware. This request is comprised of a Performance grant in an amount up to \$728,715 and a Capital Expenditure grant up to \$2,400,000.

Ms. Barbara DeHaven, DEDO’s Business Development Manager, presented this request to the Council. She began her presentation by explaining that Datwyler Pharma Packaging USA is division of Datwyler Sealing Solutions, a U.S. subsidiary owned by Datwyler Pharma Packaging Belgium N.V. Datwyler Sealing Solutions services the pharmaceutical, automotive and consumer products industries. The division has over 5,600 employees in 14 global locations. Its growth strategy includes establishing a stronger presences in the America’s with the development of its U.S. headquarters in Middletown, Delaware, where it will manufacture pharmaceutical rubber components such as diagnostics rubber stoppers, rubber stoppers for vials and plunger stoppers for pre-filled syringes. The project is expected to create at least 108 positions by the end of 2022, once the facility is fully operational and running three shifts. The company projects to invest over \$135 million into the facility utilizing local contractors and skilled tradespeople during construction.

Mrs. Jordan Schulties presented the financial status of this project. She said DEDO staff reviewed U.S. Form 1120 tax returns for 2013-2015 for Datwyler Pharma Packaging USA, Inc. and subsidiary, Datwyler Pharma Packaging USA Realty, Inc. She indicated that overall Datwyler is an established company with the support of a large internationally-based parent company. It has shown that it is able to generate strong product sales, as well as maintain a healthy gross profit margin. Total operating expenses are being held constant while direct costs are being tightly controlled. The company has maintained reasonable levels of debt and preserved healthy equity levels.

Mr. David Clark, Datwyler’s VP of Operations, explained to the council that the company had also looked in Maryland, Pennsylvania and New Jersey. After a year of searching, Datwyler chose Middletown, Delaware for its facility and headquarters. He said that one of the main reasons is its proximity to the Philadelphia International Airport. He brought samples of the products the company plans to manufacture at the facility.

Mr. Lubin asked the council if there were any comments or questions regarding the application.

Mr. Riddle asked if some of the production will be done in New Jersey. Mr. Clark explained that there are three levels of cleanliness and innovation in the pharmaceutical industry: the first level will be done in India; the second, or mid-level, will be done in Pennsauken, New Jersey; and the third level, the highest level of cleanliness and technology, will be done in Delaware. He said it is hard to combine the processes.

When Mr. Lubin asked if the employee recruitment will come from Delaware, Mr. Clark agreed.

Chairman Lubin called for a motion.

Motion Made By: Honorable Nancy Cook

Seconded By: Mr. Jack Riddle

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

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-Hundred-Twenty-Eight Thousand Seven-Hundred-Seventeen Dollars (\$728,715) based on the creation of up to 108 new full-time permanent Delaware positions and a Capital Expenditure grant in an amount not to exceed Two-Million-Four-Hundred-Thousand Dollars (\$2,400,000), as it builds its U.S. headquarters and manufacturing facility in Middletown, Delaware, contingent upon the approval remaining in effect through and including October 23, 2017.

Approved By Vote of 7 to 0.

Discussion of Portfolio Summary - Mrs. Schulties presented the Portfolio Summary, an annual report pursuant to Section 4.9 of the regulations outlining the Administration and Operation of the Council on Development Finance, filed with the state's registrar's office on the current status of loan, grant and micro-program incentives.

She explained there are 109 active Strategic Fund grants. In the current administration, she emphasized that about \$147 million were disbursed to businesses since January 2008. Through these grants, DEDO incentivized 24,608 full-time Delaware positions. As of August 31, active grantees reported its employment at 32,819, which created an additional 8,211 jobs over what DEDO incentivized. She added that there are currently 11 loans being serviced with balance of \$12.7 million, as of the end of August.

In regards to the Industrial Revenue Bond financing program, Mrs. Schulties said as of the end of December 2015, DEDO confirmed an estimated \$715 million in outstanding bonds.

In reporting on Delaware's State Small Business Credit Initiative (SSBCI), Mrs. Schulties said DEDO was awarded over \$13 million from the U.S. Department of Treasury, all of which has been disbursed by meeting specific performance metrics. The total disbursement through the SSBCI program is approximately \$8.8 million. As of June 30, 34 businesses benefitted from the program. The average DEDO participation piece totaled approximately \$250,000 and retained 421 positions. DEDO director Bernice Whaley pointed out that the public leverage of 6.14:1 is strong. Because SSBCI funding consists of short-duration loans, Mrs. Schulties said the outstanding balance is significantly lower than the total amount disbursed, with some that were paid off completely. Mrs. Whaley added that it is close to \$3 million that is circulating back in with interest.

As of June 30, 2016, there was a total of 178 businesses enrolled in the Delaware Capital Access Program (DCAP). The average loan has a principal amount of \$67,000, typically used for working capital, new equipment, and business expansion. Private to public leverage has been strong, with every public funding dollar generating \$8.30 of private dollars.

Under the Delaware Rural Irrigation Program (DRIP), 3,195 acres of Delaware's cropland has been irrigated.

Although the Limited Investment for Financial Traction (LIFT) program sunsetted, DEDO is servicing 47 businesses who took advantage of the program while it was in existence.

Lastly, DEDO regulates receivables based upon 30-60-90 past-due schedules. A default is written-off when DEDO's deputy attorney general files a claim. There were no loans written-off in FY16.

ADJOURNMENT

The meeting adjourned at 10:40 a.m.

Respectfully submitted,
Leilani Decena-Shepherd, Portfolio Administrator
LDS

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

The next CDF meeting is scheduled for Monday, November 28, 2016 at 9:00 a.m. at the Grass Dale Center located at 108 North Reedy Point Road, Delaware City, Delaware.