

**COUNCIL ON DEVELOPMENT FINANCE**

**November 28, 2016**

**PUBLIC HEARING 427**

**THOSE PRESENT:**

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

Honorable Bernice Whaley, DEDO Director  
Ms. Patricia Cannon  
Ms. Kimberly Cruz  
Mrs. Leilani Decena-Shepherd  
Mrs. Jodie Green  
Mr. Lawrence Lewis, DAG  
Mrs. Amber Mudri  
Mrs. Jordan Schulties

**ALSO PRESENT:**

**United Parcel Service (UPS)**

Paul Bendixen, Project Engineer for UPS  
Julie Dietz, Equifax Workforce Solutions

**The Center at Eden Hill, LLC**

Sean Mace, Board President & VP President for The Center at Eden Hill  
Trish Johnson, The Center at Eden Hill  
Mike Gast, M&T Bank  
Nick Lambrow, M&T Bank

**Delaware Technology Park**

Michael Bowman, Chairman & CEO for Delaware Technology Park  
Tracy Shickel, Marketing for Delaware Technology Park

Erin Innes, Office of Management and Budget  
Scott Goss, The New Journal

**LOCATION:** Grass Dale Center, Delaware City, DE

**TIME:** 9:06 a.m.

**CALL TO ORDER:**

The meeting was called to order 9:06 a.m. by Council Chairman Mr. Andrew Lubin, on Monday, November 28, 2016.

**OLD BUSINESS:**

Mr. Andrew Lubin called for a motion to approve the minutes of the October 24, 2016 Council on Development Finance meeting as presented. Mr. Fred Sears approved the motion; Mr. Richard Rowland seconded the motion, which was then adopted by unanimous vote.

**NEW BUSINESS:**

**United Parcel Service (“UPS” or the “Applicant”)** – The Applicant is requesting a Strategic Fund Capital Expenditure Grant in the amount of up to \$465,000. The Applicant proposes to use the funds for engineering and construction costs to build a new and more efficient facility in New Castle, Delaware.

Ms. Patricia Cannon, DEDO’s Director of Intergovernmental Relations and Special Projects, presented the request to the council. She explained that DEDO and UPS have been working together on this project for two years. She said the UPS site in Christiana is extremely overcrowded and it is negatively impacting the company’s productivity; therefore, the company started searching for a new east coast location for 104 current employees at the Christiana site. Although UPS considered sites in Maryland, Pennsylvania, and New Jersey, they found two locations in Delaware that were of interest.

To present her business case, Ms. Cannon read an excerpt from a Hofstra University article about the importance of geography and the transport systems. The article described that the economy and job market benefit from efficient transport infrastructures. She summarized her presentation by stating that it is important to retain the jobs in the state and construct an infrastructure that will be more efficient for UPS.

Ms. Kimberly Cruz, DEDO’s Senior Business Financial Specialist, presented the financial analysis of this project. She explained that DEDO reviewed UPS’ consolidated financial statements from the past three years as well as its 2015 annual report and June 30, 2016 10-Q filing. According to Ms. Cruz, UPS’ current performance is on an upward trajectory which is predictive of continued profitability. To optimize margins, it increased pricing to capture growing e-commerce demands. Ms. Cruz concluded that after 108 years of operations, UPS continues to focus on revenue management and operational execution with strong results, which positions them for renewed profitable growth.

Mr. Paul Bendixon, UPS’ Project Engineer, said that the company wants to remain in Delaware for years. A temporary facility was built nearby and currently houses many of the employees from the Christiana site.

In response to Mr. Jack Riddle’s questions about facility ownership, Mr. Bendixon said UPS owns the Christiana site and the temporary facility. UPS plans to keep both locations once the project is completed. He reassured the council that if the project is approved, UPS will stay in the state.

Chairman Andrew Lubin called for a recommendation and motion for the United Parcel Application.

**Motion Made By: Mr. Fred Sears**

**Seconded By: Mr. Richard Rowland**

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 Capital Expenditure Grant in an amount not to exceed Four-Hundred-Sixty-Five-Thousand Dollars (\$465,000), which will be used for engineering and construction costs to build a new and more efficient facility in New Castle, Delaware, contingent upon the approval remaining in effect through and including November 27, 2017.

**Approved By Vote of 6 to 0.**

**The Center at Eden Hill, LLC (“The Center” or “Eden Hill” or the “Applicant”)** – The Applicant is seeking a Strategic Fund Performance Grant in an amount up to \$319,590 for the creation of 123 new full-time permanent Delaware positions, as it builds its new sub-acute skilled nursing facility at 300 Banning Street, Dover, Delaware, adjacent to Eden Hill Medical Center.

Ms. Patricia Cannon, DEDO's Director of Intergovernmental Relations and Special Projects, presented this request to the council. She emphasized that this project has been a three-year journey for Eden Hill. The process of receiving the required Certificate of Need from the Public Health Board was long and filled with several obstacles, including

litigation initiated by a local competitor. The Applicant went through the review process by the Board and were eventually rewarded the certificate.

Ms. Cannon emphasized that the Eden Hill project will be in the city of Dover. She referred to a recent Department of Labor statistic indicating that state-wide unemployment is 4.3%, while the city of Dover is 6.1%. She explained that the numbers show there is a need for new jobs in the city. She also said construction of The Center supports the Governor's Downtown Development District Program and his Pathways to Prosperity Initiative.

Mrs. Jordan Schulties, DEDO's Director of Capital Resources, said The Center has not yet opened for normal operations; therefore, projections are the only data available for relative financial analysis. The company appears to have a sound financial plan for financing the startup facility, with very little reliance on debt to fund the project. In addition, the job creation incentive being proposed is relatively low risk for DEDO. The performance period of the grant will require The Center to meet its hiring targets soon after starting operations and the grant will only be disbursed upon performance. Because the healthcare industry is heavily regulated, The Center will be required to maintain certain staffing ratios, which further mitigates the risk of fluctuation in employment numbers.

Mr. Sean Mace, Board President and COO of Eden Hill Medical Center, told the board that skilled nursing facilities in Dover are operating in 97% capacity. As a result, The Center decided to develop a sub-acute care rehab.

Responding to a question posed by Mr. Riddle, Mr. Mace explained that M&T Bank is financing over \$14MM towards the construction of the building. He also clarified that there are two components involved in the development of The Center: an operations and a real estate division. He stated that the project being presented to the Council reflects the operations side. Mr. Mace said the real estate entity, Eden Hill SNF, owns the land and the \$19MM building on the property; The Center at Eden Hill is the operations company that will run the facility.

He also explained that the \$4MM project cost for The Center will go towards fitting-out the facility, which will include 80 private rooms with bathrooms, a rehab area, gym, and dining facility. Most of its patients will be on Medicare and Medicaid.

Mr. Michael Gast, V.P. of Commercial Banking for M&T Bank, said the company approved financing for Eden Hill SNF. He stated that out of due diligence, his team researched both the real estate and operations entities and reassured the council that M&T Bank is comfortable with its decision.

Mr. Nick Lambrow, President of the Delaware Region for M&T Bank, added that M&T extensively researched Eden Hill before approving its financial assistance. In regards to this project, its analysis included: the need for skilled nursing facilities in the Dover area; a financial evaluation of the operator, Veritas Management Group; a financial review of the ownership group which included the group's equity and financial projections.

Chairman Lubin called for a recommendation and 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 Three-Hundred-Nineteen-Thousand-Five-Hundred-Ninety (\$319,590) for the creation of up to 123 new full-time permanent Delaware positions as it builds its new sub-acute skilled nursing facility at 300 Banning Street, Dover, Delaware, adjacent to Eden Hill Medical Center, contingent upon the approval remaining in effect through and including November 27, 2017.

**Approved By Vote of 6 to 0.**

**Delaware Technology Park, Inc. ("DTP" or the "Applicant")** - Delaware Technology Park, Inc. is requesting a loan modification of terms on an existing Delaware Strategic Fund loan in the amount of \$3,000,000, of which loan proceeds were used to fit-out incubator lab space on the STAR campus, as an expansion for Delaware Technology Park located off of Marrows Road in Newark, Delaware. The Applicant's request would extend its forbearance period of zero interest, zero payments until July 1, 2019. DTP is also requesting lower payments in the amount of \$12,500 per month for 107 months with a final balloon payment due June 1, 2028 in the amount of \$1,662,500.

Mr. Andrew Lubin and Mrs. Bernice Whaley recused themselves from the hearing. The Chairman asked Mr. Richard Rowland to oversee the meeting.

Ms. Patricia Cannon, DEDO's Director of Intergovernmental Relations and Special Projects, presented the project to the Council. She mentioned that DTP had a recent grand opening of its newest facility on the STAR campus. She said many dignitaries attended the event, including the governor and congressional delegation.

Ms. Kimberly Cruz, DEDO's Senior Business Financial Specialist, presented the financial status of this project. She said DEDO staff reviewed DTP's most recent consolidated financial statements for 2014-2016 and a 2016-2017 profit and loss forecast. Despite historically posting net losses, DTP projects that by 2017 its income will increase and operating expenses will be reduced. It is also projecting that its calculated debt service ratio will be positive. The company's sustainability is affected by competitive market conditions, which impacts its ability to increase lease rates, which is its principal source of revenue.

Mr. Fred Sears shared his concern that DTP is requesting a reduction in payments in addition to pushing back on its first loan payment.

There was much discussion about the original CDF agreement and DTP's current request for a loan modification. Mr. Mike Bowman, Delaware Technology Park's Chairman and CEO, clarified DTP's request for loan modification. He also highlighted DTP's many accomplishments. He said the development of the labs benefited former DuPont employees who wanted to start-up their own companies. Mr. Bowman forecasted that by April 2017, the entire incubator will be in full capacity with 12 new companies and 61 new employees from all-over-the-world, corporate and UD spin-outs. He mentioned that world-class scientists currently use DTP's labs to test new human therapies, medical devices, agricultural products, and innovative software and materials. He stressed that if these companies did not have access to the incubator, they would have gone to different states to start up their businesses; but, the services and opportunities to use University of Delaware resources entice entrepreneurs. He also discussed an EDA \$500,000 grant it received, which funds shared services for companies in the facility and a program that involves pairing up students with entrepreneurs to build new products or launch a new company. He added that DTP has assisted over 100 start-up companies and created thousands of jobs in Delaware. He emphasized that the economic impact is over a \$1B in the area.

He further explained DTP's long-term mortgage and partnerships with the Science Center of Philadelphia, as well as its refinancing deal with WSFS - a \$10MM, 25-year mortgage. He said DTP's annual debt payment to WSFS is \$700,000 a year. He also pointed out a recent full audit indicated DTP's yearly debt payments are estimated to be \$1MM. It was recommended that the Applicant revisit the DEDO loan to stretch it out. Mr. Bowman said DTP would like a 20-year mortgage rather than a 10-year note. He stated that it cannot increase its tenant's lease rates because the start-ups cannot afford it. He is afraid that once the rent goes up, the companies will leave Delaware and go to other states to start-up their businesses.

The council and DTP discussed numerous topics, including its request to modify its current loan with DEDO, its lease with Delle Donne and Associates and the University of Delaware, and its financial statements regarding imputed interest and receivables.

Mr. Bowman described some of the companies located at DTP and discussed rental streams. He also added that DTP wants to do the right thing by meeting its obligation to its tenants and to the state.

Various members of the council shared their concerns with DTP about calling the current loan a mortgage and asked if the Applicant would be opposed to having a second lien against its properties to secure additional collateral for the DEDO loan. Mr. Bowman responded by saying that he is unsure how WSFS would feel about DEDO in second lien position on the mortgage.

Council members discussed who should be delegated the lien authority and whether the project should be postponed until resolution has been reached regarding a second lien on the mortgage.

Mr. Rowland called for a recommendation and a motion.

**Motion Made By: Mr. Jack Riddle**  
**Seconded By: Representative Bryon Short**

Mr. Rowland 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. Jordan Schulties, Director of Capital Resources, The Delaware Economic Development Office, an extension to Delaware Technology Park, Inc.'s deferral period of its existing loan for an additional 12 months. Payments will continue as originally contracted, with a balloon payment in an amount

not to exceed Three-Hundred-Thousand-Dollars (\$300,000), contingent upon the approval remaining in effect through and including November 27, 2017. The Council will re-consider the loan modification at its meeting on December 19, 2016, based upon further information concerning additional security on real property held by DTP.

**Approved By Vote of 5 to 0.**

After the motion was made, the council requested that Ms. Cannon contact the WSFS loan officer regarding DEDO in second lien position on the mortgage and report back to Council.

Mr. Lubin and Mrs. Whaley re-entered the meeting.

**Discussion about the Delaware Technical Innovation Program** – Mrs. Schulties presented to the council a memorandum about the Delaware Technical Innovation Program. She explained that the information distributed was an update on the DEDO program, including Delaware and federal statistics. Mrs. Whaley explained that they received this document because DEDO is required to provide the data to the legislature and therefore, she wanted the Council to be fully aware of the data.

Mr. Lubin took the information under advisement.

**ADJOURNMENT**

The meeting adjourned at 10:41 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, December 19, 2016 at 9:00 a.m. at the Buena Vista Conference Center in New Castle, Delaware.