



Commonwealth Financing Authority
Harrisburg PA, 17120

Board Meeting Minutes

September 13, 2011

The Commonwealth Financing Authority (CFA) board meeting was held on September 13, 2011. Proper notice was given pursuant to the terms of the Act of July 3, 1986 (the "Sunshine Act"). The meeting was held in PUC Hearing Room #1, Commonwealth Keystone Building; 400 North Street, Harrisburg, Pennsylvania.

In addition to Chairman Walker, the following Board members were present: Austin Burke, Barbara McNees, Michael Karp, Gerald Pappert, The Honorable Glenn Moyer and Peter Tartline, designee of The Honorable Charles Zogby.

DCED staff members present were: Sheri Collins, Scott Dunkelberger, Brian Eckert, Theresa Elliott, Ryan Emerson, Laurie Henry, Oldriska Justikova, Matthew Karnell, Anthony Pugliese, Kevin Rowland, Lynne Ruby, Kara Ruby, and Deputy Chief Counsel Jill Busch.

Members of the public in attendance were: Dave Atkinson, John Callahan, Emily Carton, David Drahms, Chelsea Guzowski, Dan Lapato, Nate Lentz, Peggy Montgomery, Mark Nastasi, Chris Stets, Lisa Taglang, and Cathy Washburn.

Chairman Walker called the meeting to order at 10:43 A.M.

Chairman Walker acknowledged the presence of a quorum of the Board and welcomed the guests.

On a motion by Mr. Burke and seconded by Ms. McNees, the Board unanimously approved the July 12, 2011 minutes.

On a motion by Mr. Burke and seconded by Mr. Tartline, the Board unanimously approved payment of CFA expenses in the amount of \$448,206.37.

Fiscal Year 2010-2011 Audit was briefly discussed. Mr. Dunkelberger stated that the audit would be reviewed at the November 3, 2011 meeting.

Mr. Dunkelberger presented the following for the Board's consideration:

Venture Capital Investment Program:

Due Diligence Recommendations

Sheri Collins spoke briefly on the Venture Capital Investment Program Due Diligence Request regarding Osage Venture Partners, III. She informed the Board that they were not voting to approve the loan, only to move forward with the due diligence with Glenmede Trust Company. She gave a brief history on the fund and introduced two of the three partners that were in attendance. Mr. Karp disclosed a conflict, stating that Osage is a tenant at a property he owns. On a motion by Ms. McNees and seconded by Mr. Pappert, the Board unanimously approved the request to begin due diligence payments.

Business in Our Sites Guideline Revisions

Mr. Dunkelberger opened a discussion on proposed Business in Our Sites guideline changes. He briefly explained the changes to the Board. On a motion by Mr. Karp and seconded by Mr. Tartline, the Board approved proposed changes to the Business in Our Sites guidelines.

Alternative and Clean Energy Program:

Energy Efficiency Project

Initial discussions on this project were tabled pending the receipt of additional information. After a lengthy discussion regarding loan versus grant awards and pay back periods, as well as additional information being provided to Mr. Karp, the discussion resumed and a vote took place at the end of the meeting. On a motion by Ms. McNees and seconded by Mr. Pappert, the Board unanimously approved a loan in the amount of \$423,375 to Donovan Heat Treating Company, Inc. for the upgrading and rebuilding of an energy efficient furnace.

Energy Production Projects

After a similar conversation regarding payback periods and awarding loans rather than grants, on a motion by Mr. Burke and seconded by Ms. McNees, the Board unanimously approved a loan in the amount of \$502,862 and a grant in the amount of \$287,341 to Pleasant View Farms, Inc. for the purchase and installation of an anaerobic digester. Mr. Karp continued the discussion regarding grants, and mentioned that the Board should refrain from approving them going forward. Mr. Pappert disagreed and stated that the Board should continue to analyze on a project to project basis, according to the legislation. The Board agreed that attempting to change the legislation to exclude grants was not something that could be accomplished at the current meeting and should be discussed in the future.

Mr. Dunkelberger briefly discussed the financing tools of other states regarding grants and loans, and stated that Pennsylvania's practices are similar.

On a motion by Mr. Pappert and seconded by Mr. Moyer, the Board unanimously approved a grant in the amount of \$350,000 to Herr Foods, Inc. for the purchase and installation of an anaerobic digester.

On a motion by Mr. Burke and seconded by Ms. McNees, the Board unanimously approved a loan in the amount of \$229,531 to Peace Tree Farm for the purchase and installation of a biomass boiler system. Mr. Dunkelberger also stated that this company had originally applied for a grant, and staff instead recommended a loan due to a short payback period.

On a motion by Ms. McNees and seconded by Mr. Moyer, the Board unanimously approved a grant in the amount of \$35,430 to The Cooperage Project for the purchase and installation of a biomass boiler.

Chairman Walker announced that there would be a five minute recess for the Board. Upon resumption of the meeting, Mr. Dunkelberger presented the following for the Board's consideration:

Renewable Energy Program:

Wind Energy Project

After a lengthy discussion, upon motion by Ms. McNees and seconded by Mr. Moyer, a grant in the amount of \$50,000 for John W. Marsteller, Sr. & John W. Marsteller, Jr. d/b/a Green Valley Farm's 50kW Wind Energy System project was rejected on a vote of 4 to 3, with Mr. Karp, Mr. Tartline, and Mr. Moyer casting the dissenting votes. Mr. Karp stated that he looks at these loans from a public policy standpoint, and expressed concern regarding projects such as this to taxpayers throughout the United States. He also mentioned that he feels using taxpayer funds for a project with a 30 year payback is misuse of funds.

IntelliWatt, LLC request to convert ACE Loan to Grant

Mr. Dunkelberger explained this special request to convert \$2,000,000 of the approved ACE loan to an ACE grant. He mentioned that detailed information was outlined in the board book and that staff recommends that this conversion should be denied. He also recommended that the original loan terms would stay in effect, and that the loan would still be contingent upon closing occurring by December 31, 2011. On a motion by Mr. Burke and seconded by Mr. Tartline, the Board denied this special request.

Alternative Fuels/Compressed Natural Gas Policies

Mr. Dunkelberger mentioned the information included in the board book pertaining to Alternative Fuels and Compressed Natural Gas policies would be discussed at the November 3, 2011 Commonwealth Financing Authority meeting. He mentioned there may be an opportunity for the CFA to participate in rolling out Compressed Natural Gas as an alternative fuel. He stated the decision would be based upon whether it is eligible under the Legislation.

Ratifications:

Mr. Dunkelberger briefly noted that Nicholas Meats, LLC has received a spousal guarantee that the Board had requested at the July 12, 2011 meeting.

On a motion by Ms. McNees and seconded by Mr. Moyer, the following special requests and First Industries loans and loan guarantees were ratified:

First Industries**Small Business First Loan**

<u>Applicant</u>	<u>Project</u>	<u>Loan</u>
Southern Alleghenies Planning and Development Commission	Jason L. and Stephanie E. Shives	\$200,000
Adams County Economic Development Corporation	William C. and Latricia S. Brent d/b/a Brent's Berry Farm	\$155,000
North Central PA Regional Planning and Development Commission	Country Squirrel Outfitters, LLC	\$50,000
Lebanon Valley Economic Development Corporation	Ricki R. Bashore, Jr.	\$200,000

First Industries Loan Guarantee

<u>Applicant</u>	<u>Project</u>	<u>Guarantee</u>
The Progress Fund	Mari J. Harrington	\$281,000

Special Requests

Six special requests for the following entities (details attached):

<u>Applicant</u>	<u>Program</u>
CAN DO, Inc.	Business in Our Sites
Corridor Venture Partners	Venture Capital Investment Program
Enterprise Development Fund of Erie County	Building PA
C. Donald and Holly D. Wissler	FIF/SBF Agriculture
Nicholas Meats, LLC	FIF/MELF Agriculture
North Star Orchards	FIF/SBF Agriculture

First Industries Loan Charge-Offs:

On a motion by Mr. Burke and seconded by Ms. McNees, the Board approved a First Industries Loan Write-Off for the SBF Agriculture loan to the EDC Finance Corporation for Karen L and Kirk E. Cramer/Cramer Farm in the amount of \$46,500 for the purchase of twenty-one dairy cows and calf hutches.

There being no further business to come before the Board, the meeting was adjourned at 12:21 P.M.

DATE: June 21, 2011

SUBJECT: Special Request -- CFA Board

TO: Scott Dunkelberger
Executive Director, Commonwealth Financing Authority

FROM: Brian Eckert
Director, Site Development

SPECIAL REQUESTS -- BOARD ACTION REQUIRED

Greater Hazleton Community Area
New Development Organization, Inc. (CAN DO)
Luzerne County

Approved: November 18, 2005
\$2,777,000 (Loan)

Requested Change:

On November 18, 2005 the CFA Board approved a \$2,777,000 BOS loan to Greater Hazleton CAN DO for infrastructure and site development at Humboldt Industrial Park East (Phase II). The site represents approximately 28 acres (25 developable), adjacent to Interstate-81 via state Route 924 in the City of Hazleton, Luzerne County. BOS funds were used for the construction of roadway, water and sewer service extension, and utility extension to service Phase II of Humboldt Industrial Park East. All funds have been disbursed.

CAN DO has sold 9.6 acres, to date, and used the proceeds from the sales to pay down the BOS loan to \$1,674,454. However, the latest economic downturn has had a negative effect on the real estate market with the last sale within the business park occurring well over two years ago.

Economic conditions over the last couple of years have also negatively affected all aspects of CAN DO's operations. As a result, CAN DO proactively implemented several cost containment measures in order to improve their cash flow position. Those measures include a reduction in outside contracting activities in the areas of public relations, graphic design, website development contracts, and maintenance. These measures are projected to save \$340,000.

Staff cuts have also occurred. CAN DO has moved two full-time employees to part-time for FY 2011 saving \$75,000 and eliminated three full-time positions saving \$140,000.

Even after all these cost containment measures are implemented CAN DO is still projected to have a budget deficit of \$463,000 for FY 2011. As a result, CAN DO is requesting the following modification to the BOS loan:

1. Extension of interest only until June 1, 2012
2. Full amortization to commence July 1, 2012.

Collateral: First priority mortgage lien on remaining 18.4 acres of land.

Collateral Value: \$5,359,000

Staff Recommendation: Approval of the following modifications to the loan agreement:

1. Extension of the interest only period until June 1, 2012
2. Full amortization to commence July 1, 2012.
3. Borrower to provide quarterly updates on activity with the secure portion of Humboldt Industrial Park East.

DATE: August 29, 2011
SUBJECT: Special Request – Corridor Venture Partners
TO: Scott Dunkelberger
Executive Director
FROM: Sheri Collins
Director of Strategic Initiatives and Venture Investment

SPECIAL REQUEST - BOARD ACTION REQUIRED

Staff has received a formal request from Corridor Venture Partners (CVP) to extend the CFA's September 30, 2009 commitment of \$5 million through July 31, 2012, a 12 month extension.

Corridor Venture Partners is actively in the process of raising a \$50 million venture capital fund focused on early stage life science investments in the Pittsburgh region. The fund managers are in discussions with several institutional and accredited individual investors and progressing toward a \$20 million first close. However, the fundraising environment locally and nationwide had been significantly depressed, and in Pittsburgh in particular total dollars invested in VC deals in 2009 was half of what it was in 2007¹.

At the same time evidence is appearing that suggests that funds of the CVP size are outperforming their larger counterparts while allowing better alignment with their investors and leveraging of industry expertise in sector and geography-specific networks. CVP is unique in the Pittsburgh region, focused 100% on early stage life science investments and is tracking strong deal flow from the Pittsburgh Life Science Greenhouse and Innovation Works regional networks.

Staff recommends approval of the extension as the fund continues to be aligned with the economic development initiatives of the region and of the venture capital program, is strategically positioned for beneficial deal flow and sized for performance in a changing venture capital industry, and is actively engaged with potential partners for a first close. The CFA's commitment to the fund continues to be extremely important to these fundraising activities, and staff believes that CVP continues to have the potential to be a vital component in providing necessary capital to promising young businesses in the Pittsburgh region.

Staff Recommendation: Approval

¹ Source: PWC MoneyTree Survey, Innovation Works

DATE: June 21, 2011
SUBJECT: Special Request -- CFA Board
TO: Scott Dunkelberger
Executive Director
FROM: Brian Eckert
Director, Site Development Division

SPECIAL REQUEST – BOARD ACTION REQUIRED

Enterprise Development Fund of Erie County

Approved: 7/14/2009
Approved Amount: \$3,000,000

Requested Change: On July 14, 2009, the CFA Board approved a Building PA allocation to the Enterprise Development Fund of Erie County (FUND) to invest in real estate projects including industrial, commercial and multi-use buildings located primarily in the designated target markets comprised of low poverty and low income census tracts in the cities of Erie and Corry and the Boroughs of North East, Edinboro, Lake City, Girard, Cranesville, Union City and Albion in Erie County. The FUND has been working with a variety of organizations that would be able to take advantage of the Building PA loan funds, but many of the projects were not able to secure additional funding.

Currently, the FUND is working on plans to develop a warehouse for REXAM, a company that creates packaging materials for a variety of products, such as beverages, food, personal care items, and health care. A 150,000 sq. ft. warehouse adjacent to the existing REXAM manufacturing site would reduce transportation costs and create efficient workflow and distribution. REXAM is planning to enter into a 15 year lease, and the project should be in place for CFA review at the September 2011 board meeting. The FUND is requesting an extension for the submission of their first project to January 31, 2012.

Staff Recommendation: Approval of an extension to submit their initial Building PA project until January 31, 2012.

DATE: July 6, 2011
SUBJECT: Special Request – CFA Board
TO: Scott Dunkelberger, Executive Director
Commonwealth Financing Authority
FROM: Jared A. Lucas, Director
Small Business First Division

SPECIAL REQUESTS – BOARD ACTION REQUIRED

C. Donald and Holly D. Wissler
Lancaster County

Approved: 11/7/2008
\$200,000 (Loan)

Requested Change:

On November 7, 2008, the CFA Board approved a First Industries SBF loan to C. Donald and Holly D. Wissler for the construction of a poultry breeder house in Holtwood, Lancaster County. The Wisslers contracted with Hy-Line North America to operate the house. Hy-Line is expanding its operations and needs additional production. They approached the Wisslers to build another house, offering \$50,000 cash up-front and a seven year production contract that pays a standard amount per bird. Fulton Bank has approved a \$1,150,000 loan to construct the second house, and is requesting that the SBF First Industries Agriculture loan subordinate its second mortgage position to the new loan. The new loan to value will increase from 58% to 80%, but the new breeder house will generate enough revenue to service the existing and new debt, with a ratio of 1.30.

Previous Collateral:

A second mortgage on the real estate located at 226 Pencroft Drive, Holtwood, Lancaster County, Pennsylvania, subject to a first mortgage in favor of Fulton Bank in an amount not to exceed \$761,500. [Valued at \$1,650,000 as of original approval]

Proposed Collateral:

A third mortgage on the real estate located at 226 Pencroft Drive, Holtwood, Lancaster County, Pennsylvania, subject to a first mortgage in favor of Fulton Bank in an amount not to exceed \$703,249 (current balance) and a second mortgage in favor of Fulton Bank in an amount not to exceed \$1,150,000. [Valued at \$2,550,000 as of November 2010 for as completed project]

Staff Recommendation:

Approve subordination request

DATE: 7/22/2011
SUBJECT: Special Request – CFA Board
TO: Scott Dunkelberger, Executive Director
Commonwealth Financing Authority
FROM: Kevin Rowland, Director
Loans Division

SPECIAL REQUESTS – BOARD ACTION REQUIRED

Nicholas Meats, LLC
(Clinton County)

Approved: 10/7/2009
\$687,500 (Loan)

Background:

On October 7, 2009, the CFA Board approved a First Industries MELF loan to Nicholas Meats LLC, which is located in Clinton County. The loan was for \$687,500 at 2% interest for 7 years to finance machinery & equipment. The current balance on the loan is \$679,203. The company plans to refinance its existing PNC debt, which is senior to the MELF financing and contractor debt with a new Sovereign Bank loan. As a result, they are asking the CFA to subordinate to additional monies.

Previous Collateral:

Loan is secured by a 2nd lien on machinery & equipment purchased subject to a 1st lien in favor of PNC Bank in an amount not to exceed \$1,240,000. The collateral was valued at \$2,286,477, resulting in a loan to value of 84.3% at the time of approval.

Proposed Collateral:

Loan is secured by a 2nd lien on machinery & equipment (see attached equipment list) subject to a 1st lien in favor of Sovereign Bank in an amount not to exceed \$2,000,000. Additional collateral equipment is being offered in consideration for the increased senior lien position. The collateral is valued at \$3,363,508, resulting in a loan to value of 79.6%. The personal guarantee of Deborah Nicholas remains in place and is valued at \$1.5 million.

Additional Information:

Cash flow has been insufficient to service all PNC, SEDA/COG, MELF, Mechanics Liens, and leasing obligations resulting in the need to reduce both SEDA/COG and MELF to interest only payments.

Proposed Sovereign Bank term debt totaling \$4MM will payoff the balance of PNC's loans (\$2,700M), all outstanding contractor debt (\$647M), and the \$250M PNC line of credit. Approximately \$250M will be used to fund the purchase of a second water tank, used to hold excess disposal water. The balance will be used for permanent working capital.

The refinancing will significantly improve the company's ability to service its debt. Nicholas Meats current debt service coverage (DSC) ability is less than 1.0x. Based on current performance of cash flow available of \$630M vs. 6 months of debt repayment under the new structure (\$344M), the company services the debt at 1.83x.

Staff Recommendation: Approval

DATE: July 21, 2011
SUBJECT: Special Request – CFA Board
TO: Scott Dunkelberger, Executive Director
Commonwealth Financing Authority
FROM: Jared A. Lucas, Director
Small Business First Division

SPECIAL REQUESTS – BOARD ACTION REQUIRED

**Ira (Ike) and Lisa Kerschner d/b/a North Star Orchards
Chester County**

Approved: 8/7/2006
\$150,000 (Loan)

Requested Change:

On August 7, 2006, the CFA Board approved a First Industries SBF loan to Ira and Lisa Kerschner to purchase a 10.3-acre tract of land, which included an old residence and some outbuildings, located at 3226 Limestone Road, Cochranville, Chester County, Pennsylvania, for the purpose of operating a retail orchard business on their own land. The Kerschners currently operate an orchard on two separate leased properties in Coatesville and Avondale, Chester County, Pennsylvania. For the last few years, the Kerschners have been attempting to purchase the property located next to their 3226 Limestone Road location, in order to expand their orchard business. They now have the opportunity to purchase the land for \$500,000, and by doing so, the Kerschners will no longer have to travel to Avondale to farm their rented property, saving a significant expense and investment of time. MidAtlantic Farm Credit, which currently holds the first mortgage on the existing property owned by the Kerschners, is willing to finance 80% (\$400,000) of the acquisition of the new property. The Kerschners only have \$50,000 of the required \$100,000 down payment. Therefore, they are requesting that the Commonwealth Financing Authority subordinate its second mortgage position on the current property to a new second mortgage in favor of MidAtlantic Farm Credit in an amount not to exceed \$50,000, which will be used to fund the balance of the down payment due on the new property. The original loan-to-value was 82%. The new loan-to-value will be 65%.

Previous Collateral:

A second mortgage on the real estate located at 3226 Limestone Road, Cochranville, Chester County, Pennsylvania, subject to a first mortgage in favor of MidAtlantic Farm Credit in an amount not to exceed \$168,750. [Property valued at \$385,300 as of original approval]

Proposed Collateral:

A third mortgage on the real estate located at 3226 Limestone Road, Cochranville, Chester County, Pennsylvania, subject to a first mortgage in favor of MidAtlantic Farm Credit in an amount not to exceed \$168,750 (current balance \$155,761), and a second mortgage in favor of MidAtlantic Farm Credit in an amount not to exceed \$50,000. [Property valued at \$490,000 as of June 20, 2011]

Staff Recommendation:

Approve subordination request