

Pennsylvania Economic Development Financing Authority

January 18, 2023

A meeting of the Pennsylvania Economic Development Financing Authority (PEDFA) was held pm Wednesday, January 18, 2023, after proper notice was given pursuant to the terms of the Act of July 3, 1986 (the “Sunshine Act”). The meeting was held via teleconference.

The following Board Members were present via Teams Videconference. Mandy Book, for the Honorable Frederick C. Siger; the Honorable Ryan Mackenzie; Gwenn Dando, for the Honorable Wayne Langerholc; Cheryl, Cook, for the Honorable Russell Redding; Scott Weiant, for the Honorable Nancy Walker; Laura Kurtz; Howard Slaughter; Michael Brubaker; Nick Haden; Fred Rinaldi; Ismail Shahid; Stephen Bradley; and Ronald Brown.

The following DCED staff members were present via Teams Videoconference: Stephen M. Drizos, Executive Director, Center for Private Finance; Carol Longwell, Esq., Office of Chief Counsel; Craig Petrasic, Center for Private Financing and Brian Deamer, Center for Private Financing.

It was moved by Mr. Haden and seconded by Mr. Brown that the Board approve the Minutes of November 16, 2022. The motion carried.

KDC AGRIBUSINESS FAIRLESS HILL LLC

Mr. Petrasic stated, “This request is for amendments to a previously approved transaction. The Borrower is KDC Agribusiness Fairless Hills, LLC, a Delaware limited liability company.

The PEDFA Board previously approved the issuance of Series 2020 Exempt Facility Bonds in the aggregate principal amount of \$126,130.000 and Series 2021A Federally Taxable bonds in the principal amount of \$44,160.000 to finance costs associated with the developing, constructing and/or equipping of a facility located at 250 Canal Road in Fairless Hills, Township of Falls, County of Bucks, Pennsylvania leased by the Borrower that would collect approximately 60,000 tons per year of unsold, pre-consumer bakery, produce, dairy, meat and seafood products diverted from disposal by grocery stores and other food markets and process the same into a balanced, nutritional animal/pet feed product. Borrower has recently financed a similar plant in Indiana, through a different wholly owned operating subsidiary. When the Indiana financing closed, the Borrower entered in a master indenture structure to cross-collateralize projects to ensure if there were financial difficulties with any one project, excess revenues from the other projects would support it. The Borrower now proposes to bring the PEDFA bonds under the master indenture structure. To that end the Borrower is requesting approval to amend and restate the First Amended and Restated Indenture and to amend and restate the First Amended and Restated Loan Agreement, as further described in the attached Resolution.

There are some people with the project here to describe what they are trying to do and to answer any questions. We have Bill Rhodes, from Ballard Spahr; Dan Turner, from Turner Law; Daniel Palentino and Mat Rademacher from Piper Sandler; and Dave Buffa, from KDC Agribusiness.”

Mr. Rhodes stated, “I will just quickly confirm that Craig’s description was good. This is a project that financed in two tranches, tax exempt and taxable, previously. The project was completed and up and running and the success of this project today is evidenced by the investor demand and the company’s need to grow the business to expand further. The first additional project is for a very similar line of processing in Indiana. The investor appetite for that project lead the company to begin to discuss the possibility that the Fort Wayne, Indiana project and other future projects that the company hopes to develop in similar lines of process could be cross collateralized. For instance, if Fairless Hills is generating that net positive cash flow after payment of debt service, in theory that money could go to distribution to the equity holders. The idea is now that if Fairless Hills was generating that net positive cash flow, before that cash flow would be distributed to equity, we would first look to see whether any of it is needed to support another project. If so, it would go there first and so any distribution of equity would be measured across all the projects.

This idea is meant to allow net positive cash flow from any one project to support any other project. We see this same approach taken in many healthcare systems, where there is a master trust indenture and various debt issues thereunder are all cross collateralized and cross defaulted at a master indenture level above the bond level. By taking that tried-and-true approach to enhance the overall collateral package and security for all of these projects, the thought was to incorporate this structure and overlay it on top of the Fairless Hills deal.”

Mr. Buffa stated, “Everything that Bill said was accurate. I will say that I thought Craig’s description was pretty incredible and was very concise and totally accurate and clear. We have been talking about this deal structure for eight months and nobody has gotten it as well as Craig did. So, thank you. We are creating another facility in Fort Wayne that is going to be effectively a carbon copy of the facility we built in Fairless Hills. It is the same process and the same machinery. We have taken lessons learned and made it more efficient. As Bill mentioned, we are hoping to build 15 to 20 of these over the next five years and as we do that, we plan to continue to use this structure and get the benefits of cross collateralization by adding additional facilities that will be producing revenue to this obligated group. The only other thing is that we are building these facilities with the demand for the offtake. We generate an animal feed that we currently feed to chickens and then through direct agreements with the suppliers we create a chicken product for consumers that either comes through retail or food service outlets like stadiums.”

Mr. Drizos stated, “You should know that there is one bondholder, and this change to the transaction is supported by that bondholder. That takes away a lot of issues, as far as putting this transaction together. It also puts forth a good amount of credibility.”

Mr. Brubaker asked, “Are you selling directly to the farmer or the integrator like Tyson or Perdue?”

Mr. Buffa stated, "It depends. In one instance we are selling directly to a farmer, where we buy the chicken back from and then sell the parts and trade backs at Acme and Giant and other locations. In another instance we work with a large distributor that has an in-house chicken growing operation and they can use their existing infrastructure to grow chickens and sell to their distribution channels. That is more like stadiums or QSR restaurants."

Mr. Brubaker asked, "You are talking about broilers and not layers?"

Mr. Buffa stated, "These are broilers. We have an exclusive deal with Michael's Foods, which is the number one egg distributor in the country. They are owned by Post Holdings. We will be feeding layers through Michael Foods for our egg products."

Mr. Brubaker asked, "What are the raw materials coming in again?"

Mr. Buffa stated, "It is either food waste, which has become a no-no word, it is actually now referred to as grocery surplus, and we work with grocery stores and a couple large distribution centers that make sausage or something to effectively achieve a 65/35% ratio of fruits and vegetables to meat. We keep the cold chain with bins that we designed that we put in the freezers at the stores, so people don't have to put it in the dumpster. They source separate and then we have a fully automated system at the facility that picks up the bin and scans them and sorts and dumps them."

Mr. Brubaker stated, "How do you manage odor control?"

Mr. Buffa stated, "The cold chain, the bins that we created are like Yetis on steroids. They are huge Yeti coolers that stack. We pick up every two or three days from the stores. We can keep the cold chain for seven days with the bins, but we usually have them dumped and processed in five days. It maintains all the odors and nutrients and processes it without adding anything."

Mr. Haden asked, "I recall this transaction a couple years ago. I thought this was extremely clever. Is Fairless Hills generating positive cashflow to service the debt right now?"

Mr. Buffa stated, "Yes, we are generating revenue. We have been selling in store since April, so we have a cashflow that we generate from the retail sales and then we also have long term agreements that we are on the precipice of entering into that will be long term secured offtake for the products we create. Right now, if you had the pleasure of working in the retail consumer products and grocery industry, you would know it is somewhat week to week. You get purchase orders from grocery stores to buy the products and then you place them each week. That business has been up and running for us since April and generating revenue and we have transitioned to some of these deals that are going to be more selling the feed exchange for a royalty to use the brand name and license it out with the products that we create. It will create a more consistent revenue stream."

Mr. Haden asked, “So you are able to service the debt? You are servicing the debt now and you are not behind and on point?”

Mr. Buffa stated, “Yes, we are current.”

It was moved by Mr. Brown and seconded by Mr. Haden that the Board approve KDC Agribusiness Fairless Hills, LLC Resolution. The motion carried.

NEW BUSINESS

None.

PUBLIC COMMENT

None.

ADJOURNMENT

It was moved by Mr. Brubaker and seconded by Mr. Haden that the Board adjourn.