

Delaware Sustainable Energy Utility
Loan Committee

DE Sustainable Energy Utility Office
500 W. Loockerman Street, Suite 400, Dover, DE 19904

November 15, 2016 – 1:00 p.m.

Members present were: Kristopher Knight (teleconference), Dave Bonar, Doug Bacher, NW Financial Group (teleconference), Brent Shaffer, Young Conaway Stargatt & Taylor, LLP (teleconference), Trey Paradee, Anthony J. DePrima, and Lisa Gardner.

1. Review Loan Application – The Lorelton Foundation – Mr. DePrima informed members that The Lorelton Foundation (TLF) has requested a loan in the amount of \$1,000,000 in order to finance various equipment and other upgrades to provide for energy efficiencies that include but are not limited to the replacement of heat pumps, roof top units, ventilation improvements, lighting, insulation, and plumbing fixtures for units in the facility. Total project costs are projected at \$1,140,000 with the proposed funding provided by a cash equity contribution of \$140,000. Below is a summary provided by Mr. Douglas Bacher, NW Financial Group:

The Project and Loan Request

TLF is a 501(c)3 charitable foundation formed in 1985 to provide housing and services to the elderly. Housing includes assisted living facilities (multiple units in a single building) that have an occupancy rate of 66% - 89% since 2005. The assisted living facility is located at 2200 West 4th Street, Wilmington, DE.

TLF is requesting a 20 year loan in the amount of \$1,000,000 at 2%. They have also requested that they be given the ability to prepay the loan prior to the end of the term without penalty; this prepayment provision is typically provided in all DESEU loans. New Ecology provided TLF with an energy and water audit and provided TLF with a report indicating average annual savings over the 20 year period to be \$76,665 for a total savings of approximately \$1,533,300. However, the savings associated with the projects come to the TLF over the 20 year period of the loan in the shape of a bell curve, meaning that the savings are greatest in the middle years of the loan and less in the early and later years. To accommodate the annual savings projections, we developed a repayment plan that reflects the savings schedule and provides for savings in excess of the debt payment in each of the 20 years based on the information as provided by New Ecology. It should be noted that even with a 20 year loan at 2% interest, the estimated monthly savings are only slightly greater than the monthly loan payment, varying from only a 1.01 – 1.02 savings to loan repayment ratio requirement on an annual basis. It is more typical that the DESEU have a 1.10 (10%) savings to loan ratio to provide a cushion if projected savings are inaccurate.

TLF has a considerable amount of outstanding debt that includes a mortgage totaling \$3,057,896 as of December 31, 2015. The other outstanding loans are the “Stat Family Loans” that have an outstanding balance of \$3,537,614 as of December 31, 2015. The mortgage is for the building they currently occupy. The DESEU loan would be subordinate to the mortgage but not the Stat Family Loans.

Summary

The concerns raised in this review include:

- This is a 20 year loan for equipment and projects that some of which may have a shorter useful life than the term of the loan.

- The TLF has over \$6m in outstanding debt.
- The annual savings are only slightly more than the loan repayment amounts on both a monthly and annual basis.

The TLF is a not for profit offering valuable services to the community with no indication that they have not been able to meet its annual financial obligations. The loan, although providing only minimal savings, does provide the TLF with the moneys needed to purchase and install updated energy efficient equipment. As with all loans, the DESEU should have a lien on the equipment as well as receive a 2nd position on the facility to provide additional security.

Responding to Mr. Paradee, Mr. Bacher stated that he did not have an appraisal of the facility. Mr. Knight asked if TLF applied for any grants as well as the quality of revenue.

Mr. Bonar motioned to table the loan application until the above information was ascertained, seconded by Senator McDowell and unanimously carried.

Due to a possible conflict of interest, Mr. Brent Shaffer did not participate in the following loan application.

2. Review Loan Application – The Delaware Stadium Corporation (Frawley Stadium) Mr. DePrima informed members that the Delaware Stadium Corporation (DSC) has requested a loan in the amount of \$1,176,216 for the installation of energy efficiency measures.

Below is a summary provided by Mr. Douglas Bacher, NW Financial Group:

The Project and Loan Request

The DSC is a private corporation created by the State of Delaware to own, manage and operate the multipurpose facility known as the Daniel S. Frawley Stadium. The DSC was formed in 1993 and as owner/manager organizes events that include professional, college, high school and other amateur baseball games, concerts, and other corporate and 501(c)3 events. The majority of the revenue is received from the lead tenant, Wilmington Blue Rocks Minor League Baseball Team, a Carolina League affiliate of the Kansas City Royals. The Blue Rocks play 70 games a year and have been a tenant of the Frawley Stadium since DSC’s inception in 1993.

DSC is proposing to install energy efficiency lighting for the Frawley Stadium and parking lot, HVAC systems in the stadium suites, and a new hot water heater system for the stadium. The cost of the energy upgrades is estimated at \$1,217,061. Funding for the upgrades will come from a DESEU loan, in the amount of \$1,176,216, a \$35,845 DNREC grant, and a \$5,000 cash contribution from DSC. Estimated savings range from \$74,417 in the first year to \$120,690 in year 20, totaling \$1,883,445 over 20 years. This includes maintenance savings and assumptions by Trane to provide for the inflation of energy costs.

Loan Security

NW reviewed the following documents in connection with a review of this loan request:

- The DESEU Loan Application
- The Trane Energy Engineering report
- 2013, 2014 and 2015 IRS form 990
- The 2015 DSC budget

In addition, NW staff had several conversations with the Executive Director of the DSC to answer questions or to obtain additional data and with Trane to better understand the estimated savings. NW has not independently verified the validity of the assumptions utilized by Trane to calculate the estimated, projected system savings.

The DSC has an annual operating budget of approximately \$220,000. Expenses are limited to the operations and maintenance of Frawley Stadium and the salary and wages of the Executive Director. The DSC owns the Frawley Stadium and as noted earlier, revenues utilized for expenses are received by entities utilizing the stadium. Most of DSC's revenue is received from an ongoing contract from the Blue Rocks. The DSC recently negotiated a new contract with the Blue Rocks designed to provide revenue on a monthly basis over the 12 month fiscal year. They are in the first year of the new contract that has a term of 5 years with three, two year options to extend (total of 11 years if the options are executed). Revenue (\$120,000 annually) is paid to the DSC monthly, \$10,000/month. It is the intention of the DSC to again renegotiate the terms of the contract to better reflect and recognize the term of the proposed DESEU loan; however, this has not yet happened.

The DSC owns Frawley Stadium and there is no mortgage. The DSC has an operating cash reserve totaling approximately \$185,000.

Summary

The DSC has an operating history going back to 1993. The Blue Rocks have been a tenant since the Frawley Stadium's construction in 1993. The DSC has stated that they have never had a year in which they operated at a deficit. They own Frawley Stadium outright and have a small cash reserve. That said, loan security issues include:

- The current contract with its major tenant (the Blue Rocks) has a term that is shorter than the proposed loan. If all of the contract extension options are executed, the term of the contract is 11 years (5 plus 3, 2 year extensions).
- The major tenant is a minor league baseball team. Although the Blue Rocks have been operating in Wilmington, DE, since 1993, we have not undertaken a financial review of the Blue Rocks organization and cannot attest to their financial stability. It should be noted that several minor league baseball teams in area (Atlantic City and Camden, NJ) have either not survived or are having financial difficulties.
- Revenues received from other venues and events are not guaranteed and are a function of the DSC's ability to continue to attract those or similar events to the stadium.

Possible solutions to the loan security issues include:

- A loan with a term of less than 20 years. The DSC is willing to discuss a shorter term loan but their strong preference is a loan with a 20 year term.
- A lien on the equipment (a typical DSEU loan request). They are willing to provide a lien on the equipment.
- A requirement that the contract with the Blue Rocks be renegotiated with a term that at a minimum is equal to the term of the loan. As noted earlier, it is the intent for the DSC to renegotiate the terms of the current agreement with the Blue Rocks to provide for a longer term.
- A lien on Frawley Stadium to be executed if repayment is not made. The DSC has discussed and have agreed to provide the DESEU with a lien on Frawley Stadium as security for this loan.

For purposes of discussion, NW has modeled 2 loan repayment schedules with a 2% interest rate; that reflect savings in excess of debt payments in each of the years; and have increasing principle payments to recognize the savings projections from Trane and to provide for a debt service coverage ratio of 1.10 to 1. The first is a 20 year loan term that has been requested from DSC. The second is a 17.5 year loan

term that reflects the minimum number of years that the energy savings support a loan with a 1.10 to 1 debt service coverage ratio.

Several committee members shared concerns regarding the five (5) year lease agreement, as well as clarification of who owns the Blue Rocks, and the ability of DSC to pay off the loan if the contract with the Blue Rocks is not renewed.

Mr. Bonar motioned to table the loan application until the above information was ascertained, seconded by Mr. Paradee and unanimously carried.

Meeting adjourned at 1:35 PM.