

Delaware Sustainable Energy Utility
Loan Committee
DESEU Office
500 W. Loockerman Street, Suite 400, Dover, DE 19904
July 6, 2017

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

As representatives from the IPR loan application were present, Mr. Knight moved to amend the agenda so the IPR application was first. The motion was seconded by Mr. Paradee and unanimously carried.

1. IPR – Discussion of Loan Collateral for Energy Efficiency Measures for Data Center- Mr. DePrima reminded members that this loan request was brought before the Loan Committee on May 31, 2017. At that time the Committee made no decision and raised a concern that the loan may not meet the standard loan profile therefore making a decision regarding a guaranty level inappropriate.

Loan Request

The loan request is for \$1,000,000 for the purchase of energy efficient cooling equipment for computers and to upgrade to more energy efficient UPS systems that are used to provide uninterrupted power to computer equipment. The total project cost is approximately \$2,100,000.

Term and Security of the Loan

The proposed amortization schedule (term of the loan) has been reduced to 5 years. The shortening of the term allows for a majority of the loan to be repaid within the 3 year term Project Zoom contract. It is currently anticipated that the Project Zoom contract will be extended following the 3 year term. If however, the Project Zoom contract is not extended beyond 3 years, three of the partners of North Market, LLC, (i.e. “Three North Market Partners”) will provide a Guaranty at that time for the repayment of the balance of the loan in years 4 and 5. The guaranty will be cash that is placed in escrow to be used for this purpose. If the term of the Machine Loan is extended and the guaranty is not needed, the guaranty will be released. As noted, North Market, LLC owns 1201 North Market, the building where IPR is currently renting space.

Lock Box and Dedicated Revenue

The Project Zoom contract will provide IPR with approximately \$48,600 in revenue monthly. This revenue will be placed in a lock box and be used to pay the expenses associated with the Project. Of the \$48,600, \$17,968 will be dedicated to the repayment of the DESEU loan. The \$17,968 represents \$17,000 principal and interest at 3%. Over the 3 year period of the current contract, \$612,000 of the loan principal will be repaid leaving a balance of \$388,000 (\$17,000 x 36 months = \$612,000). As noted above the Three North Market Partners will guaranty the repayment of the \$388,000 at that time.

Additional Money Needed for Project Completion

Three North Market Partners has agreed to provide the additional \$700,000 needed to complete the Project. We have been advised that because the Project completion schedule is very short, (the Project needs to be functional by July 15 to satisfy the terms of the Project Zoom contract) Project construction has already commenced.

Lien on Equipment

IPR had previously agreed to a lien on the equipment being installed. Equipment is currently valued at \$1,500,000 and has a useful life of 15-20 years. It should also be noted that because Three North Market Partners are involved as a private investor in the Project, they have an added interest in securing new tenants that can utilize the space and equipment for the office under the worse scenario in which there is a financial collapse at IPR.

Summary

There is risk associated with repayment of any loan and this loan is no exception. The proposed changes to the term and the changes that provide additional security for repayment of the loan have reduced but not eliminated all of the risks associated with this proposed loan. The term is shorter and ties more closely with the term of the Project Zoom contract. IPR has found an investor not only to provide the other funds (\$700,000) needed to complete the Project but to also provide a guaranty (cash placed in escrow) of the loan repayment that goes beyond the 3 year term of the Project Zoom. Finally, the lock box will provide additional assurance that the revenue from the Project Zoom contract will be available and dedicated for repayment of the loan.

Mr. Sean Meenan, IPR International, Mr. T.J. Healy, 1201 Market, and Mr. Scott Johnson, McConnell Johnson Real Estate was present to brief members on the project and to answer questions; once done they were asked to leave the room so that members could discuss.

Mr. Knight moved to approve the loan to IPR, in the amount of \$1,000,000, at 3% interest rate and a term of five (5) years, and to include the following conditions: establish a lock box to capture revenue from the Project Zoom contract the revenue from which the loan will be repaid, lien on equipment, include cash up front in the amount of \$388,000 to be placed in escrow that stays in escrow until it's release is mutually agreed upon. The motion was seconded by Mr. Slater and unanimously carried.

1.b. Georgetown Medical Associates - Mr. Bacher stated that Georgetown Medical Associates, LLC has requested a loan in the amount of \$97,000 direct loan for purposes of installing a solar roof mount array on the building located at 20930 DuPont Blvd., Georgetown, DE. It is anticipated that the loan will be adjusted and recast once an expected \$27,000 REAP Grant is received following the completion of the project.

Project

The solar project is a roof mounted solar array system that consists of 154, 270 watt solar modules with 3 inverters. It will be mounted on a multi-office, office building that is owned by the applicant by Dr. Beshara N. Helou as a sole member Limited Liability Company, Georgetown Medical Associates, LLC. Georgetown has office space in the building and leases space to other tenants including Lab Corp, the Delaware Sleep Lab, and the Delaware Integrated Health Group. The building is a 17,100 sq. ft., that sets on 1.5 acres, and was built in 2007.

The solar project will provide 49,602 kWh of energy to the building, 104% of the building's needs. The projected savings is estimated at \$4,948 annually.

Cost of the Project:

- DESEU Loan \$97,000
 - Borrower contribution \$11,108
- Total Project Cost \$108,108

Loan Request and Security

Georgetown has requested a loan of \$97,000, amortized over 21 years. A 21 year payback is about what is needed to retire the loan utilizing savings alone. However, upon review of the application and discussions with Dr. Helou, Dr. Helou has amended his request. First, as noted earlier, there is a \$27,000 REAP Grant that will be coming to Georgetown following the completion of the project. It was requested that the Grant be applied against the principal of the loan upon receipt to allow for a smaller loan moving forward. Georgetown has agreed to apply the REAP funds against the principal, effectively amending the loan to \$70,000. Secondly, Dr. Helou agreed, to provide a personal guaranty as additional security to the loan. And finally, because Dr. Helou would like to have the lowest possible interest rate applied to the loan, it was requested and Dr. Helou agreed, to a shorter amortization period (10 years). So even though the annual payments will exceed annual savings a shorter amortization schedule provides for a quicker retirement of the loan, retires the personal guaranty and allows the DESEU to offer a lower interest rate.

A review of the available financial information (tax returns and credit report noted above) provides the following. It should be noted that although some information can be ascertained from a tax return, a tax return is prepared under guidelines designed to limit taxes, not to provide a complete financial picture of a corporation.

That said, the credit report notes that there are no bankruptcies, judgements or liens reported against Georgetown. A review of the tax returns show gross receipts and profits of just over \$2,000,000 in 2015 and gross receipts and profits of \$1,954,338 and \$1,697,835 respectively in 2014 and 2013. It is an increasing trend over the 3-year period. Business income is over \$600,000 in 2015 and 2014 and \$482,688 in 2013. Georgetown appears to be profitable.

Georgetown (Dr. Helou) has an outstanding mortgage on the building of \$1,280,000. The initial mortgage in 2007 totaled \$3,200,000. Dr. Helou has been aggressively paying down the mortgage and plans to have it retired over the next 7 years. Georgetown also has a \$500,000 active line of credit. Dr. Helou is also contributing \$11,108 towards the project construction.

Loan Amount:

- Project Cost \$108,108
 - REAP Grant (\$27,000)
 - Borrower Contribution (\$11,108)
- Final Loan amount \$70,000*

* Amount after the loan is recast

Summary

Georgetown Medical appears to be a profitable, ongoing business. Dr. Helou is interested in taking a shorter loan to reduce his long term financial exposure and to receive the lowest interest rate possible. He has also consented to a personal guaranty of the loan. I would suggest that the loan be approved at \$97,000 at 2% with a 10 year term with the following conditions:

- That the REAP Grant proceeds, expected to be \$27,000, be applied against the principal of the loan.
- That the loan be recast at a principal amount of \$70,000 upon receipt of the \$27,000 REAP Grant proceeds by the DESEU.
- That the DESEU receive a personal guaranty of the loan from Dr. Helou.
- That the DESEU receive a collateral position on the equipment being installed.

Mr. Slater moved to approve the loan request with the above listed criteria, the motion was made seconded by Mr. Paradee and unanimously carried.

Meeting Adjourned at 4:00 PM