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Sent: Monday, April 5, 2010 11:58 AM
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Subject: Memo to the EDC Board
Attach: Stokes Memo to Board re Guaranty Kushner 4_4_10 DOC ms.DOC; Budget Article for RIEDC - Kushner - 4_1_10.doc

Good Morning,

Attached please find two documents from Keith Stokes. As always, if you have any questions or concerns, please feel free to contact Keith directly.

Thank you,
Sharon Penta

RIEDC

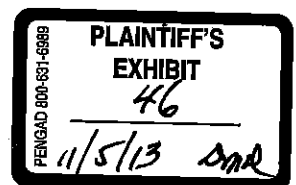
Rhode Island
Economic Development Corporation
Building the Next Century's International Economy

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APS001277

MEMORANDUM

To: RIEDC Board of Directors
From: Keith W. Stokes, Executive Director
Date: April 5, 2010
Re: RIEDC/Job Creation Guaranty Program (Legislative Approval)

You may recall that one of the economic development tools that we have been advocating, and that has been the topic of many discussions, and reports, is the availability of a complete "capital continuum" of state supported finance programs. Rhode Island has some good programs in this arena, but what we offer has limitations. For example, through our Small Business Loan Fund, we have provided a good source, but not enough, of operating capital for small businesses. Through Slater, we have reduced the number of sector investments to IT/Digital Media and Life Sciences and provide some, but not enough, seed capital in these sectors. Through our RIIFC and IRBA programs we have provided successful funding for manufacturers and firms requiring expansion of physical plant and equipment. However, on the continuum, we do not have a good tool to help solid businesses expand and grow if their capital needs are based on intellectual property (e.g. patents or licenses) or other soft assets or business operations require in excess of \$5,000,000 loan (the cap on IRBA guarantees, resulting from the legislation authorizing this program being approximately 25 years old). This leaves us at a competitive disadvantage, particularly since traditional commercial lending dropped approximately 19% nationally in 2009.

The General Assembly has been listening to us, and they also are finding many of their constituents also raising similar concerns. Accordingly, on April 6, at the rise of the House (approximately 4:30 to 5:00), the House Finance Committee will hold a hearing on the RIEDC financing programs, including Slater and small business services. In addition to the traditional financing programs, I have been discussing with the General Assembly leadership the need for a larger and more flexible financing program that will allow the RIEDC to assist growth businesses creating jobs in the "knowledge economy" and other growth areas.

The General Assembly has asked us to propose a program that would respond to the need for credit enhancement in these growth areas and at these levels. This is wonderful news and would immediately respond to some initiatives and opportunities in our pipeline. Accordingly, we have prepared a form of joint resolution for the General Assembly to consider that would authorize us to guaranty directly, or through the issuance of bonds, the debt service (not accelerated default debt) of up to \$125,000,000 of these types of loans from commercial lenders or bond purchasers. This annual "moral obligation" guaranty has proven successful for us in the past.

I am pleased that the General Assembly has indicated its desire to proactively seek our participation in this program. I am attaching a draft of the form of resolution we have submitted to the General Assembly for their consideration. We can discuss this further, of course, but I wanted to make you aware of this exciting opportunity for us. Please call me if you have any questions.

ARTICLE ____

RELATING TO DEBT MANAGEMENT ACT JOINT RESOLUTION(S)

SECTION ____. *RIEDC JOB CREATION GUARANTY PROGRAM*

1 WHEREAS, the Rhode Island Economic Development Corporation was created by the
2 general assembly pursuant to chapter 64 of title 42 of the general laws in order to, among other
3 things, promote the retention and expansion of businesses and the creation of jobs in Rhode
4 Island; and

5 WHEREAS, one of the methods utilized by the Rhode Island Economic Development
6 Corporation to help promote and expand businesses in Rhode Island is the use of its quasi public
7 corporation powers to issue bonds and debt and guarantees of debt; and

8 WHEREAS, Rhode Island continues to suffer from continuing high unemployment and
9 other ill effects from the most recent national recession; and

10 WHEREAS, one of Rhode Island's economic development's strategies of continuing to
11 optimize its knowledge economy assets such, as the sciences, technology, digital media,
12 innovative manufacturing and other technologies, requires adequate access to capital; and

13 WHEREAS, Rhode Island companies in growth phases are limited in their ability to
14 obtain reasonable credit without access to credit enhancement; and

15 WHEREAS, the Rhode Island Economic Development Corporation desires to create a
16 loan guarantee and bond program pursuant to which it will be able to guarantee loan repayments
17 either directly or through the issuance of its bonds in order to induce lending to companies
18 growing their employment in Rhode Island; and

1 WHEREAS, the Rhode Island Economic Development Corporation seeks to have
2 authority pursuant to chapter 18 of title 35 of the general laws to guarantee debts or otherwise
3 issue its bonds for this purpose not to exceed \$125,000,000 in the aggregate of unpaid principal
4 and interest, thereby limiting the contingent long-term cost of such program to the state to such
5 maximum amount; and

6 WHEREAS, the Rhode Island Economic Development Corporation requests the approval
7 of the general assembly prior to undertaking such program; now, therefore, be it:

8 RESOLVED, that the Rhode Island Economic Development Corporation (the
9 "corporation") is hereby empowered and authorized pursuant to chapter 18, title 35 of the general
10 laws, and notwithstanding any provisions of chapter 64, title 42 of the general laws to the
11 contrary, to create the corporation's Job Creation Guaranty Program (the "program") and
12 guarantee annual debt service or issue bonds up to an aggregate guaranty or bond obligations of
13 the corporation with respect to the program not to exceed \$125,000,000 in the aggregate;

14 RESOLVED, that guaranties or bonds issued by the corporation shall be approved by its
15 board of directors, or a committee of the board as so designated by the board, and shall be
16 executed by its executive director or any authorized officer of the corporation as authorized in a
17 resolution approved by the board of directors of the corporation from time to time in a form the
18 corporation may prescribe. The board of directors of the corporation in authorizing any such
19 guaranty or bond obligations shall consider and be guided by the following objectives:

20 (a) Priority will be given to projects that promptly create permanent, full-time jobs with
21 annual wages in excess of 150% of the then current minimum wage earned annually with
22 industry comparable benefits.

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1 (b) Any guaranty or bond obligations hereby authorized should leverage capital
2 formation to facilitate business development with new and existing companies that create or
3 retain jobs.

4 (c) Priority shall be given to guarantees that align with the State's economic
5 development strategy to expand high-wage jobs in knowledge industry growth clusters or with
6 respect to assets related thereto.

7 (d) Guarantees or loan obligations from the program's borrower will be collateralized by
8 any and all available assets of the borrower and guarantors, where applicable, including
9 subordinate collateral positions, cross collateralization with other lenders and collateralized
10 guarantees as appropriate.

11 (e) Insurances, including hazard and key person life, may be required where appropriate.

12 (f) The corporation may utilize such data and retain experts as necessary to assess and
13 validate associated guaranty risk, and the corporation may charge borrower reasonable fees for
14 the corporation's guaranty and reimbursement of expenses;

15 RESOLVED, that in order assure any payments due on guarantees or bond obligations
16 issued by the corporation in connection with the program pursuant to this authorization are made,
17 to assure the continued operation and solvency of the corporation for the carrying out of its
18 corporate purposes, and except as otherwise set forth in these authorizing resolutions in
19 accordance with the provisions of chapter 64, title 42 of the general laws (i) the corporation shall
20 create a reserve fund from which shall be charged any and all expenses of the corporation with
21 respect to guarantee or bond obligations of the corporation pursuant to these resolutions resulting
22 from a program borrower's default; and (ii) the corporation shall credit to the reserve fund no
23 less than fifty percent (50%) of all program receipts of the corporation including guaranty fees,

1 premiums and any other receipts or recoveries from collections received pursuant to the
2 corporation's rights to recover payments as a guarantor; and (iii) to the extent the corporation's
3 obligations as a guarantor or pursuant to its program bond obligations are not satisfied by
4 amounts in its guaranty reserve fund, the executive director of the corporation shall annually, on
5 or before December 1st, make and deliver to the governor a certificate stating the minimum
6 amount, if any, required for the corporation to make payments due on such guarantees. During
7 each January session of the general assembly, the governor shall submit to the general assembly,
8 as part of the governor's budget, the total of such sums, if any, required to pay any and all
9 obligations of the corporation under such guarantees or bond obligations pursuant to the terms of
10 this authorization. All sums appropriated by the general assembly for that purpose, and paid to
11 the corporation, if any, shall be utilized by the corporation to make payments due on such
12 guarantees or bond obligations. Any recoveries by the corporation of guaranteed payments are
13 to be returned to the guaranty reserve fund and utilized to reduce any obligation of the state
14 pursuant to any guarantees entered into by the corporation;

15 RESOLVED, On or before January 1 of each year, the corporation shall issue a report on
16 all guarantees issued by the corporation pursuant to this authorization. The report shall include
17 at a minimum: a list of each guarantee issued; a description of the borrower on behalf of which
18 the guarantee was issued; the lender or lenders that made the loan, and the amount of such loan,
19 to such borrower; the amount of principal and interest on each such loan outstanding as of the
20 date of such report; a summary of the collateral securing the repayment of such loan for which
21 the guarantee was issued; and a summary of the economic impacts made by such borrower as a
22 result of the guaranteed loan, including but not limited to the number, type and wages of jobs
23 created by such borrower, any impacts on the industry in which the borrower operates and an

- 1 estimate of income taxes for the state of Rhode Island generated by the employees of such
- 2 borrower and the borrower itself.
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